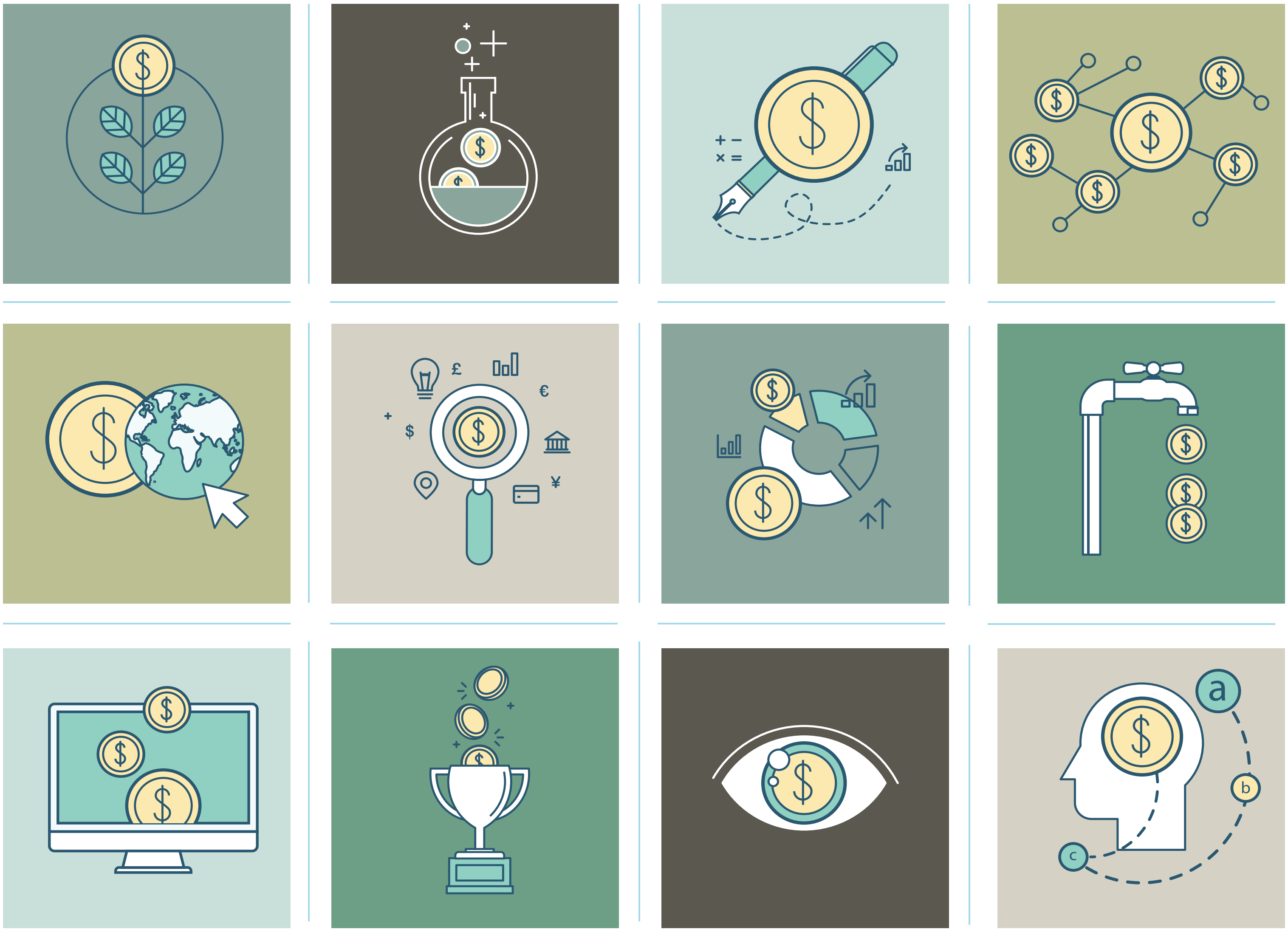

THE BASICS OF SAVING + INVESTING

INVESTOR EDUCATION 2020

A PRODUCT OF

Investor Protection Trust

Investor Education in Your Community®

Investor Protection Institute

THE BASICS OF SAVING + INVESTING

INVESTOR EDUCATION 2020

A Message to Educators

The Basics of Saving and Investing: Investor Education 2020 is a project of the Investor Protection Trust (IPT) and the Investor Protection Institute (IPI). This unique teaching tool provides school age and adult learners with non-commercial information that they need to know for sound financial decision-making and investing throughout their lives.

You can use ***The Basics of Saving and Investing: Investor Education 2020*** as the framework for an entire course or as part of a semester or year of instruction. The guide is complete with lesson plans, worksheets, overheads/handouts and tests covering each unit.

Divided into four self-contained units, ***Basics*** focuses on the following learning objectives:

- Understanding the financial markets
- Making sound financial and investment decisions
- Selecting among the various saving and investing options
- Recognizing and victim-proofing yourself against investment fraud
- Knowing how regulators help to protect investors

The Basics of Saving and Investing: Investor Education 2020 is available for download on the IPT website at www.investorprotection.org/teach-investing along with additional investor education booklets and videos.

We hope you will join the thousands of educators using this Investor Protection Trust/Investor Protection Institute teaching guide. We trust that you will find it an enriching experience in many ways.

Want to know more about IPT and IPI?

The Investor Protection Trust is a nonprofit organization devoted to investor education. Since 1993 the Investor Protection Trust has worked with the states and at the national level to provide the independent, objective investor education needed by all Americans to make informed investment decisions. The Investor Protection Trust strives to keep all Americans on the right money track. For more information, go to http://www.investorprotection.org. Visit IPT on Facebook at https://www.facebook.com/InvestorProtectionTrust and on Twitter at @IPT_Info.

The Investor Protection Institute is an independent nonprofit organization that advances investor protection by conducting and supporting unbiased research and groundbreaking education programs. IPI carries out its mission through investor education, protection and research programs delivered at both the national and grassroots levels in collaboration with state securities regulators and other strategic partners. IPI is dedicated to providing innovative investor-protection programs that will make a meaningful difference in the financial lives of Americans in all walks of life and at all levels of sophistication about financial matters. For more information, go to http://www.iInvest.org. Visit IPI on Facebook at http://www.facebook.com/InvestorProtectionInstitute and on Twitter at @IPI_News.

Sincerely,

The Investor Protection Trust

The Investor Protection Institute

Acknowledgements

CONTRIBUTIONS

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This publication benefited from a series of investor education booklets developed by the **Kiplinger Washington Editors, Inc.** and the **Investor Protection Trust.**

THE BASICS OF SAVING + INVESTING

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INVESTOR EDUCATION 2020

UNIT 1 | Getting Started

UNIT 1 | Getting Started

TEACHING STANDARDS/KEY TERMS

- Benefits
- Choices
- Compound interest
- Decision-making
- Diversification
- Financial plan/Investment plan
- Goals
- Interest rate
- Investing
- Limited resources
- Market returns
- Needs vs. wants
- Opportunity costs
- Rainy day fund
- Risk
- Savings
- Time value of money
- Trade-offs
- Values

Unit Objectives:

INDIVIDUALS WILL:

- Discuss why people save and invest.
- Learn how to think about financial decisions.
- Understand key concepts of saving and investing (including the "time value of money").

Unit Teaching Aids

LESSON 1:
- Investing in the Real World *(Handout)*

LESSON 2:
- Saving and Investment Products *(Handout)*
- Comparing Saving and Investment Products *(Worksheet)*

LESSON 3:
- Pyramid of Investment Risk *(Overhead and Worksheet)*
- Investment Risk *(Quiz and Answer Key)*
- Time Value of Money *(Chart and Worksheet)*
- Rule of 72 *(Worksheet)*

UNIT TEST:
- *(Test and Answer Key)*

For Instructors

Defining "Investor Education"

This expanded and updated teaching guide is about **investor education** — helping young and adult learners understand how to successfully save and invest in order to achieve their future financial goals. You probably have seen a number of teaching guides and student workbooks in recent years that cover important topics such as how to balance a checkbook, deal responsibly with a credit card, buy life insurance, and make other financial decisions.

That is why the teaching guide you are now reading focuses on one thing and one thing only: **investor education**. As such, ***The Basics of Saving and Investing: Investor Education 2020*** concentrates on such financial products as stocks, bonds, mutual funds, 401(k) retirement plans, IRAs, and other major investment tools. If you want to teach your students about other issues, such as the responsible use of credit, buying insurance, etc., please consider using this teaching guide as an investment-specific supplement to the other topics that you are covering.

Why Teach This Unit?

Learning how to invest is valuable information from which many people can benefit. Company pensions are a thing of the past. Social Security is not intended to cover all of the financial needs of retirees … and younger Americans are those most likely to doubt it will be there for them in their time of need. In order to achieve a secure future, most Americans will need to participate in the financial markets through individual investing or employer-based retirement programs — or both. Too many people jeopardize their future financial security by failing to take the time to learn about investing. It is important, therefore, that individuals learn how the financial markets (and the products sold in them) work. The first step in that process is the focus of this Unit: Learning how smart saving and investment decisions are made. You, and your students, will find that it isn't nearly as intimidating a topic as they — and you! — may think.

Many people have money but few know how to manage it. Nearly half of all high school students have a part-time job. Some save their money and invest it for future needs, including funding a college education, buying a car, starting a family, or even taking the first steps toward purchasing a home. But too many young people spend everything they earn … and more! … on food, clothes, and entertainment. Worse, all too many students have credit cards and use them to spend money they don't have and, in some cases, can't repay. By contrast, young people who understand and practice sound financial decision-making skills early in their lives are on the road to financial success. Of course, this is also true of adults who may never have learned how to plan for retirement.

Individuals who start investing early can become big financial winners. Students and even some adult learners may wonder at first what a course about investing has to do with them. They may think they don't have much money now and have plenty of time later to worry about saving and investing. Most would think differently if they knew that just $5 a week invested at 8 percent interest beginning at age 18 would grow to $134,000 by the time they reach 65. Teenagers have an advantage that older people don't have: time. When they understand this concept and use time in their favor, young people have a much better chance of pursuing their dreams and reaching their financial goals. For adult learners, the reality is that the only thing worse than starting a bit late … is never starting at all.

LESSON 1: Why People Save and Invest

Most people start saving and investing to meet a specific goal, such as buying a car, continuing their education, or starting a family. Among the tasks adults face as they move into the working world are the following:

- Preparing for a career, often by going to college or a technical/vocational school.
- Saving for major purchases and expenses (such as a college education, a family and a first home).
- Building up a "rainy day" fund for emergencies (possible job lay off, etc.).
- Developing a personal financial/investment plan.
- Starting a savings and investment program.

Beyond the things they may need or want either now or in the near future, people save and invest for other reasons. One of the most important reasons for people to save and invest is to provide the funds for a comfortable, financially secure retirement. People who save and invest for the long term are using their money to make more money — through interest in a bank product (such as a certificate of deposit) or through market returns on a stock, bond, or mutual fund. Most investors need both bank and investment products to meet their long-term financial goals.

LESSON 2: How to Think About Making Financial Decisions

Saving and investing are good things — they can make one's life better. Money can't buy you happiness, but it can help create a piece of mind that makes happiness more likely to result. Ask your class the following questions:

- Could you spend 10 percent less than you do now, pay your bills, still have fun, and put that money to work for your future?
- If you could save 10 percent of your income for future goals, what would those goals be?

It takes more than luck to get what you want out of life. Individuals have to know what they want and then commit to a plan to meet those goals. The hazards of not planning include the risk of having a lifestyle filled with limited choices. Students need to know that by "paying yourself first" — making saving a priority — they can do more than just dream about what they want in the future: Those dreams can really come true!

Most people have to work to earn money. And once they have earned it, they have an important choice to make:

- Spend it all; or
- Spend a portion and save the rest.

Whether one's income is small or large, setting aside some of it for investments requires self-discipline. This means that anyone with the self-discipline to postpone buying certain things they'd like to have now can enjoy the longer-term benefits of having that money work for them through savings and investments.

Financial decision-making is important at all ages because each decision will bring students either closer to, or further away from, their saving and investing goals. For example, Thomas's goal is to save $100 each month for college. However, when he goes shopping and sees that iPhone that he has wanted for several months, he decides to buy it instead of saving or investing for college that month. If he makes similar spending choices month after month, Thomas will never reach his college savings goal.

The following decision-making model will help you help your students consider relevant information that will lead to an informed choice:

The important point to get across here is this: Your students' financial picture is all about the decisions they make now … and for their future.

In the financial decision-making process, there are many different choices or alternatives that consumers must weigh. Each choice will have benefits and costs. As students weigh the benefits and costs of each alternative, it is important also to consider trade-offs and opportunity costs. ***Trade-offs*** are those items foregone as a result of choosing one option over another. ***Opportunity costs*** are those valued alternatives that are given up as a result of choosing one option over another. The concept of "opportunity cost" is key to understanding the power and benefits of investing for the future.

Consider Kathy's car-buying experience to explore needs, wants, choices, costs, benefits, trade-offs, and opportunity costs.

1 Define the Issue or Problem.

Kathy wants to buy a car.

2 Gather Information.

Before going to a dealer, Kathy searches the Internet to learn more about the types of cars in her price range, the safety and reliability of the models, and the resale value of the makes and models that interest her. She also talks with an auto mechanic and an insurance agent to learn about the additional costs of car ownership.

3 Consider Alternatives and Consequences (trade-offs/opportunity costs).

Kathy explores her full range of choices. Would it be better to use public transportation? Should she purchase a new or used car? What will she have to give up to buy this car? Will she have to work more hours each week? Will she have to forego other activities that require spending money?

4 Make a Decision and Take Action.

After much consideration, Kathy decides to purchase a used car that is two years old, reliable, and safe. She also decides to put off the purchase for several months so that she can make a larger down payment.

5 Modify Plans as Needed.

Two years after purchasing the car, Kathy moves to a big city. For a few months she pays the high costs for parking, but soon realizes that it is much less expensive to use public transportation, so she decides to sell her car.

LESSON 3: Key Concepts of Saving and Investing

Over time, saving can build up money; however, investing offers the best way to achieve long-term financial goals. Any discussion of investing must begin with this simple truth: ***Investing means taking risks***. Investment success depends in part on the ability to address those risks without passing up reasonable returns. That is why everyone needs to create a financial/investing plan (see Unit 3) that suits them and then they need to stick with it.

This lesson introduces several savings and investment vehicles such as stocks and bonds. These, as well as other vehicles, are discussed in more detail in Units 2 and 3.

Anyone can accumulate substantial sums of money by applying the following five keys to investment success. Note that these are keys, not "secrets." There really aren't any investing secrets.

KEY CONCEPT #1: Pay Yourself First

Make investing a habit. For most people with a small amount of money with which to start, the key to building up wealth lies in developing the habit of adding to one's investments regularly and putting the money where it can do the most good. The rewards can really add up. For example, suppose a person takes $5,000 and puts it in a savings account where it earns a safe 2 percent interest. Twenty years later that same deposit has grown to more than $7,400.

That's a great start, but it's not enough to finance a worry-free retirement. Suppose one's goal is much higher than that — perhaps amassing a nest egg of $250,000. Assume a person has 20 years to reach that goal and the same $5,000 to start, and is willing to investigate investment alternatives that have the potential to boost the return above earnings in a bank account. What's a reasonable return to plan on, and how much will have to be added along the way? Since 1926, the stocks of large companies have produced an average annual return of nearly 10 percent. (Remember, that includes such "down" times as the Great Depression, Black Monday in 1987, the stock slide that followed September 11, 2001 and the recession that started in 2009.) At 10 percent, with $5,000 to start and a goal of $250,000, our investor must contribute $279 a month to the investment account. With an 11 percent return, $235 a month will grow to a quarter of a million dollars in 20 years.

KEY CONCEPT #2: Set Goals That Will Inspire Success

Encourage your students to set exciting and concrete goals. Make the concept more concrete by discussing with them how they can work towards new financial goals: a new car … a new house … a college degree … a family. If they set vague goals, such as "financial security" or "a comfortable retirement," they'll have trouble measuring their progress along the way. They may even struggle to maintain interest in the project. Why is that true? Vaguely defined investment goals can lead to halfhearted efforts to achieve them. It is better to help your students set goals they can grab onto, goals that will excite them. Instead of "financial security," why not "half a million dollars in net worth by age 60?" Who wouldn't want to be "half a millionaire?"

Ask your students to think about how much their dreams and goals are going to cost. How much money will they need? Setting investment goals is a lot like reading a map: Before they can get to where they want to go, they've got to figure out their starting point. An easy way to help get your students there is by having them fill out the personal balance sheet in Unit 3. There are no "right" or "wrong" investment goals. They will be influenced by projected income and job security, risk tolerance, and age. In addition, the time they have to achieve their goals should influence the kinds of investments they might consider. Most people have several goals at once.

Here are some scenarios to explore with your students that include different types of goals:

- **Short-term goals** | Suppose that a trip to Europe is one of your goals and that you would like to achieve it next summer. Such a short time horizon suggests that the stock market wouldn't be a good place to invest the money you're setting aside for the trip. The market is subject to wide swings, and you wouldn't want to be forced to sell your stocks in a downswing just because the time had come to buy your airline tickets. Don't put money into the stock market that you know you will need in the next two or three years. Low-risk vehicles such as certificates of deposit, for example, that mature about the time you'll need the cash or a money market fund that allows you to withdraw your cash instantly by writing a check may be a better choice.
- **Medium-term goals** | Maybe you'd like to buy your first house in five years. With more time, you have more flexibility. Safety is still important but you are in a better position to ride out down times in the financial markets and take on a little more risk. For medium-term goals like these, consider longer-term CDs that pay more interest than the short-term certificates you would buy to help finance your vacation trip. You could even consider mutual funds that invest in stocks that pay good dividends but don't tend to fluctuate much in price. That could give you high income (for reinvesting in more fund shares), a chance to ride along if the market zooms, and pretty good protection against all but a steep drop in stock prices.
- **Long-term goals** | A comfortable retirement is probably the most common of all financial goals. A college education for your children is another goal. For long-term goals like these, you can afford to take more risk. Consider a wide range of possibilities: stocks, corporate and government bonds, and long-term CDs for diversification. Also take maximum advantage of tax-sheltered plans, such as individual retirement accounts (IRAs) and 529 college-savings plans. IRA earnings accumulate on a tax-deferred basis, and contributions may be tax-deductible. 401(k) plans provide many of the same advantages and might offer employer contributions that will help you reach your goal.

It is important to understand that these goals are likely to change, so it's important to reassess them annually, as is discussed in Unit 3. For instance, the kinds of growth-oriented investments that might be perfectly appropriate while accumulating a retirement nest egg and have a long-term horizon could be inappropriate after retirement when there is a need for income to pay the bills. The investment universe is vast and there are plenty of resources — magazines, newspapers, books, the Internet, investment advisers — who can help individuals decide how to rework their portfolios as their circumstances change.

KEY CONCEPT #3: Don't Take Unnecessary Risks

Risk and investing go hand in hand. In fact, risk can be defined as the chance one takes that all or part of the money put into an investment can be lost. The good news is that investing risk comes with the potential for investing reward — which is what makes the whole process worthwhile. Risk is the chance one takes that an investment will lose money, or earns less from one investment rather than another. If one can't reasonably expect to do better than that for the risk being taken, there's no sense in taking the risk.

Even seemingly "no-risk" products — such as savings accounts and certificates of deposit in federally-insured banks, savings and loans, or credit unions — carry the risk of earning less than the inflation rate. If the return comes in behind the rate of inflation, the investment has actually lost ground because your earnings aren't earning as much as they might have been with a different investment vehicle.

How does one control risk? Think of risk like a pyramid built on a broad, solid base of financial security, including a home and money in insured savings accounts or certificates. Visualize a pyramid. As one moves up from the base of the pyramid, the levels get narrower, representing the space in one's portfolio available for investments that involve risk. The greater the risk, the higher up the pyramid it goes and the less money should be entrusted to it.

Before you save for the future, you need to plan for today … and that means having an emergency fund. Three to six months' living expenses should be the goal. Bank, savings and loan, or credit union accounts are good places to keep this money. However, it's a good idea to look for opportunities to earn more than the 0.25 percent to 1 percent interest that these institutions tend to pay on their run-of-the-mill deposit accounts by putting most of it in higher interest-producing investments like certificates of deposit, for example. One also might use a money market fund for at least part of this rainy day money. Such funds aren't federally insured, but they are conservative places to invest and they often pay a higher return than savings accounts.

Once one has built the base of their pyramid, they're ready to move up and become an investor. One level up is the appropriate place for mutual funds that invest in low-risk, dividend-oriented stocks and top-quality government and corporate bonds. Individual stocks and bonds are on the same level. Most financial experts would put investment real estate on the next level up. At the very top of the pyramid are investments that only experienced investors should try, such as penny or micro-cap stocks, commodity futures contracts and most limited partnerships. *(Instructors may want to expand on the variety of investment products listed here by going to Unit 2 for more detail.)*

How much risk is right? Controlling risk means more than being "comfortable" with an investment. Too many investors seem perfectly comfortable with too much risk. The basic thing to remember about risk is that it increases as the potential return increases. Essentially, the bigger the risk is, the bigger the potential payoff. (Don't forget those last two words — "potential payoff." There are no guarantees.) That might sound exciting, but turn it around: the bigger the potential payoff, the bigger the risk of losing.

Does this mean one should avoid all high-risk investments? No. But it does mean that it is smart to confine them to the top of the investment pyramid — where they can never occupy a significant portion of one's investment portfolio. The basic rule to follow is: Invest only as much as you can afford to lose because you might, in fact, lose it. It's important to recognize the risks involved in every kind of investment.

KEY CONCEPT #4: Put Time to Work for You

Not familiar with the "time value of money?" The concept is one that everybody should learn about and live with since it can give financial security that one otherwise may not have. It's very simple: The more time individuals have to save and invest, the more money they can end up with … and not just in a 1 + 1 + 1 + 1 = 4 kind of way. Money invested over time is ***compounded*** so that even small amounts invested regularly can add up to impressive sums. Compound interest means that interest is added on the original principal and on the accumulated past interest, thereby making your money grow into more, faster. Think of it like this: You are making money on your money.

Consider college loans. Ever wonder why some young people and their parents work so hard to save and invest to pay for college tuition? Fast forward five years: Select a student who is now married and has a baby on the way. Let's say the cost of that child's four-year education in 18 years will be $528,000 (a conservative estimate!). That's a huge sum, but because this student knows about the time value of money, she will find a way today to start saving for this expense. Why is that exactly? Because the dollars put away today are worth considerably more than they will be in 18 years. Assuming a time value for the money of 10 percent per year — meaning one could earn that much on the money between now and the time it will be needed — the value of the $528,000 you need 18 years from now is about $95,000. So, if that amount was available right now and salted away in an investment earning 10 percent a year, her child's college bills would be covered. Since it's unlikely she will have that amount handy, the smart idea would be to invest as much of it as she can as soon as she can to get the time value of money working for her. The lesson here is to start early and to save regularly.

A simple way to determine how long it will take for an investment to double in value is known as the **Rule of 72**. To use the Rule of 72, divide the interest rate into 72. The answer will be the number of years it will take for money to double in value. For example, with an interest rate of six percent, it will take 12 years for the money to double (72 ÷ 6 = 12). If the interest rate is eight percent, it will take 9 years for the money to double.

KEY CONCEPT #5: Diversify… Diversify… Diversify

Never put all your eggs in one basket. The way to accomplish this is through ***diversification*** **—** spreading out savings and investments over multiple categories (e.g., stocks, bonds, and cash) in order to minimize the danger posed by an "up" or "down" in any one of the categories. The need to diversify one's investments is two-fold:

- No investment performs well all the time; when one thing is down, another thing tends to be up.
- Investors may be able to increase their return by diversifying. The simple rule of thumb is this: The greater one's diversification, the lower the exposure to risk.

Owning a variety of stocks and bonds may be one way to diversify one's investments. But this can also be accomplished with mutual funds. Mutual funds are often the best way to diversify, although one needs to understand how to evaluate mutual fund track records and to analyze costs. And investing in bonds doesn't necessarily mean only corporate or municipal securities. Variations on the bond theme can perform the same function for an investor's portfolio, often at a more attractive return.

INVESTING IN THE REAL WORLD:

The 2013 Survey of Consumer Finances published in September 2014 found that 53 percent of all households maintain a savings account, representing more than $3 trillion in low-interest savings. Using this data, we can look at how much money savers are losing each year by keeping their nest eggs in low-yield accounts. Consider the following:

- If all the deposits (totaling an estimated $3 trillion) were shifted into accounts that paid 3 percent more (such as high-rate savings accounts, CDs, or Series EE Savings Bonds), savers would earn at least $90 billion more in annual interest.
- If all deposits were instead shifted to Series I Savings Bonds, which pay 5 percent more than the average for deposit accounts, interest earnings would jump to an additional $60 billion annually.

Lesson Outline: Saving and Investment Products

OBJECTIVE	**Learners will:** ■ Start discussing the role of saving and investment products. ■ Analyze several savings products from various financial institutions.
MATERIALS	■ "Comparing Savings Products" worksheet. ■ Chart on board or poster board. ■ Chalk, markers, or paper markers.
PROCEDURES	**Instructor will:** ■ Use the "Saving and Investment Products" overhead to differentiate between saving and investing. ■ Discuss common saving vehicles. ■ Discuss the following questions: • *Which savings/investment vehicles have higher rates of return?* • *How are these instruments different?* • *Based on how they are described, what instrument products are most effective for these investment goals: safety, growth, income?* **Learners will:** ■ Work individually or in small groups to complete the "Comparing Savings and Investment Products" worksheet. Information may be gathered via the Internet, newspapers, or telephone. ■ Present research to class members by posting it on master forms, blackboard, newsprint charts, or in short oral presentations.
ASSESSMENT	■ "Comparing Savings and Investment Products" worksheet or class presentations.

Lesson Outline: Saving and Investment Products

ESTIMATED TIME	■ 60 – 90 minutes in class plus outside homework.
BEYOND THE CLASS-ROOM	■ Find the requirements for opening and maintaining a savings or investment account at a specific financial institution.

Worksheet: Saving and Investment Products

	Savings	Investments
OBJECTIVE	Short-term needs or emergencies	Long-term growth
PRODUCTS	Savings account, money-market account, CD	Stocks, bonds, mutual funds
RISKS	None on capital if FDIC insured (limits apply — contact local institution), but there is inflation risk	Varies, depending on investment product
SOURCE OF RETURN	Interest paid on money deposited	Interest, dividends, or capital gains or losses
KEY BENEFIT	Money is safe and accessible	Returns have outpaced inflation over the long term
KEY DRAWBACK	Returns historically have not outpaced inflation over the long term	Risk of losing money if securities decline in value

Name ______________________________ Date ______________

Worksheet: Comparing Saving and Investment Products

Financial Institution Name ______________________________

	SAVINGS ACCOUNT	MONEY MARKET FUND	CERTIFICATE OF DEPOSIT
ANNUAL INTEREST RATE			
EFFECTIVE YIELD			
SAFETY (Insured by FDIC, NCUA, other)			
MINIMUM INITIAL DEPOSIT			
DATE TO MATURITY			
PENALTY FOR EARLY WITHDRAWAL			
SERVICE CHARGES, FEES			

Lesson Outline: Pyramid of Investment Risk

OBJECTIVE	■ Use the "Pyramid of Investment Risk" worksheet to make saving and investing recommendations for several different case studies.
MATERIALS	■ "Pyramid of Investment Risk" overhead ■ "Pyramid of Investment Risk" worksheet ■ Quiz: Investment Risk
PROCEDURES	**Instructor will:** ■ Discuss the relationship between risk and return. ■ Discuss the "Pyramid of Investment Risk" overhead. ■ List (as a class) different types of investment products (may include stocks, bonds, mutual funds, real estate, etc.). ■ Place these products in the blank Pyramid. ■ Discuss the trade-offs of high-, moderate-, and low-investment risk. ■ React to and give examples of the following investment statement: "All investment decisions involve weighing opportunity costs and trade-offs." **Learners will:** ■ Create a list (as a class) of saving and investment products. ■ Place each of the investment products in the correct location on the "Pyramid of Investment Risk." ■ Discuss why they have placed the products in each of the categories.
ASSESSMENTS	■ Contributions to class discussion. ■ Worksheet/Quiz: Investment Risk

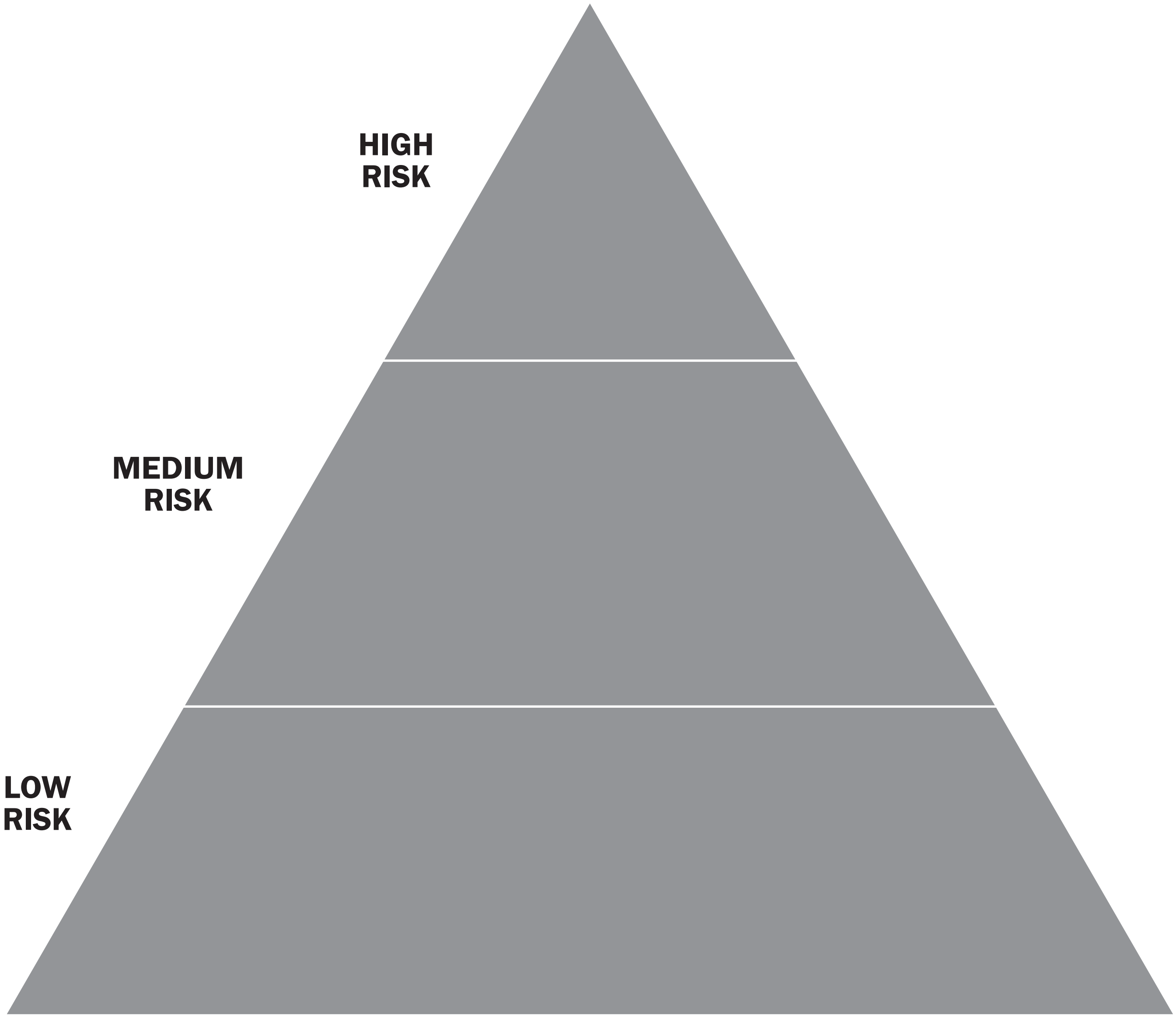
Lesson Outline: Pyramid of Investment Risk

ESTIMATED TIME	■ 45–60 minutes of class time.
BEYOND THE CLASSROOM	■ Find an online article that discusses a high-risk investment that has experienced substantial loss in value in recent months. Write a summary paragraph about the article and discuss why this investment was considered high risk.

Pyramid of Investment Risk

Pyramid of Investment Risk

Place the investment products in the correct location on the pyramid.



- Aggressive Growth Stocks
- Corporate Bond
- Futures
- Government Securities/Bonds
- Aggressive Growth Mutual Fund
- Real Estate
- U.S. Savings Bonds
- Aggressive Growth Bonds
- Savings Account
- Cash
- Widely Traded Stocks
- Largest Mutual Funds
- Money Market Funds
- Certificate of Deposit
- Exchange Traded Funds

Name ______________________________ Date ____________

Investment Risk — Quiz

1 Bob Smith is saving for the down payment on a new car. If he is very careful with his money, he will have the full down payment in six months. Because his time frame is short, he is deciding between a low-risk saving option and a moderate-risk investment account. What would you recommend for Bob in these circumstances and why?

2 Jinhee Lee just graduated from college and began her first job. She has always wanted to buy a condo and believes that she could save enough for the down payment in three to five years. Would you recommend Jinhee place her money in a low- or moderate-risk investment vehicle? Why do you recommend this choice?

3 Juanita Romero is 16 and has earned some extra money at her summer job. She decides to invest it and let it grow until retirement. She has 49 years until retirement and realizes she can accept some risk. She's deciding between an investment that has moderate risk and one that has a slightly higher risk and the possibility of a higher return. What would you recommend Juanita choose and why?

4 Raemon and Keesha Wilson have a two-month-old baby girl and they are already planning for her college costs. They deposited a small amount into a savings account but are looking at several different investment options. Do you recommend that the Wilsons look mainly at low-, moderate-, or high-risk investments?

Name ______________________________ Date ____________

Investment Risk — Answer Key

Some learners may have answers that differ from those below. Instructors may choose to correct this quiz on a case-by-case basis if a learner properly defends his or her answer.

1 Low risk because of the short time frame.

2 Moderate risk because of the moderate time frame.

3 Moderate or moderately high risk because of the long time frame.

4 Moderate risk because of the moderate to long time frame.

Time Value of Money

Investor A invests $2,000 a year for 10 years, beginning at age 25. Investor B waits 10 years, then invests $2,000 a year for 31 years. Compare the total contributions and the total value at retirement of the two investments.

Investor A			Year-End	Investor B			Year-End
Age	Years	Contributions	Year End Value	Age	Years	Contributions	Year End Value
25	1	$2,000	$002,188	25	1	$0	$0
26	2	2,000	4,580	26	2	0	0
27	3	2,000	7,198	27	3	0	0
28	4	2,000	10,061	28	4	0	0
29	5	2,000	13,192	29	5	0	0
30	6	2,000	16,617	30	6	0	0
31	7	2,000	20,363	31	7	0	0
32	8	2,000	24,461	32	8	0	0
33	9	2,000	28,944	33	9	0	0
34	10	2,000	33,846	34	10	0	0
35	11	0	37,021	35	11	2,000	2,188
40	16	0	57,963	40	16	10,000	16,617
45	21	0	90,752	45	21	10,000	39,209
50	26	0	142,089	50	26	10,000	74,580
55	31	0	222,466	55	31	10,000	129,961
60	36	0	348,311	60	36	10,000	216,670
65	41	0	545,344	65	41	10,000	352,427
Value at Retirement			$545,344	Value at Retirement			$352,427
Less Total Contributions			($20,000)	Less Total Contributions			($62,000)
Net Earnings			$525,344	Net Earnings			$290,427

Note: Assumes a nine percent fixed rate of return, compounded monthly. All interest is left in the account to allow interest to be earned on interest.

Name ______________________________ Date ____________

Time Value of Money

Advantage of Investing Early in Life

Using the handout, "Time Value of Money," answer the following questions.

1. At $2,000 a year, how much did Investor A invest in the 10 years between ages 25 and 35?

2. What is the year-end value of Investor A's investment at the end of 10 years?

3. At $2,000 a year, how much did Investor B invest over 31 years?

4. What is the value at retirement of Investor A's investment?

5. What is the value at retirement of Investor B's investment?

6. What are Investor B's net earnings?

7. Summarize in your own words what is meant by "the time value of money."

Name ______________________________ Date ____________

Worksheet: The Rule of 72

The Rule of 72 is a useful tool for investors. With the Rule of 72, you can calculate how long it will take your money to double at a given interest rate, if you reinvest the earnings.

72 Divided by the Percentage Rate of Return
E Q U A L S
The Number of Years Needed to Double Your Money

For example, if you had $1,000 to invest, it would take nine years at 8% interest rate for the money to reach $2,000. (72 ÷ 8 = 9). At 10%, it would take 7.2 years for the $1,000 to double. (72 ÷ 10 = 7.2). How long will it take the following investment to double?

INVESTMENT	Rate of Return	Years to Double
1. CD	3.0%	__________
2. U.S. Treasury Note	2.66%	__________
3. Common Stock	10.0%	__________
4. Money Market	1.7%	__________

5. An investment club has a goal of picking stocks that grow 10% a year. How long would it take for such an investment to double in value?

____

Name ____ Date ______________

Unit 1 Test

MATCHING

A. Values

B. Goals

C. Decision making

D. Pay yourself first

E. Net worth

F. Budget

G. Financial/investment plan

H. Investments

I. Rainy day fund

J. Living expenses

1. ______ Money that is readily available for unexpected expenses
2. ______ Things that a person considers to be important
3. ______ An organized process of allocating income and investing to achieve one's financial goals
4. ______ What you own minus what you owe
5. ______ The idea that one should plan to regularly set aside money for savings and long term financial goals before other bills and personal spending
6. ______ An end result toward which effort is directed

TRUE OR FALSE

1. T F People who have low incomes have little need to develop a personal financial/investment plan.

2. T F The time value of money brings additional yields through compound interest.

3. T F "Never put all your eggs in one basket" demonstrates the need for investment diversification

4. T F A financial/investment plan can help eliminate uncertainty and conflict about financial decisions.

5. T F It is against the law for employers to pay into employee savings/investment programs.

MULTIPLE CHOICE

Circle the letter that answers the question correctly.

1. **Financial worth is**

   A. liquid assets minus long-term investments

   B. total assets minus total liabilities

   C. total investments minus total debt

   D. the worth of all personal assets

2. **Before investing, a person should have all of the following except**

   A. unpaid balances on several credit cards

   B. sufficient income to exceed current spending needs

   C. savings to cover typical emergencies

   D. a financial/investment plan that will be regularly modified

3. **"Pay yourself first" suggests that a person should**

   A. avoid creditors and purchase non-essentials with cash

   B. establish a business and work as its president

   C. set aside money for regular savings and investing before paying other bills and spending money on yourself

   D. pay back a loan you borrowed from yourself

Unit 1 Answer Key

MATCHING

1. I
2. A
3. G
4. E
5. D
6. B

TRUE OR FALSE

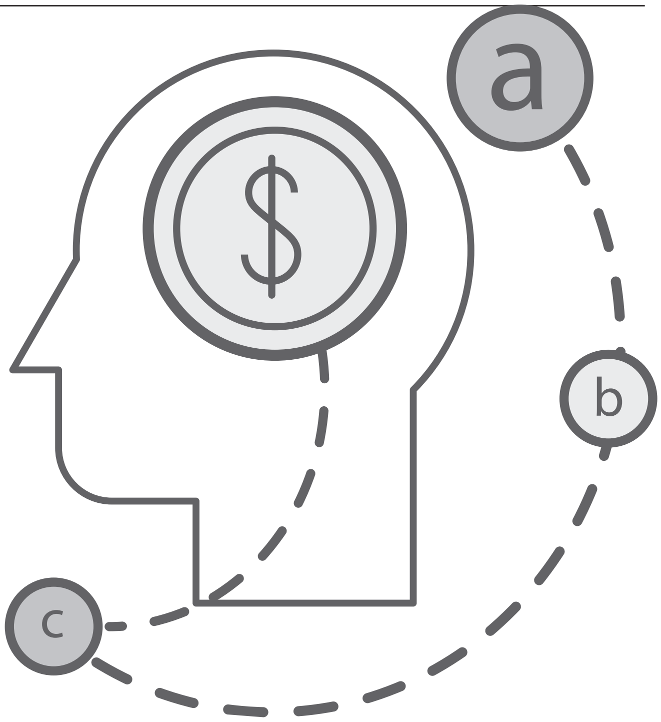
1. False
2. True
3. True
4. True
5. False

MULTIPLE CHOICE

1. B
2. A
3. C

UNIT 2 | Introduction to Financial Markets

UNIT 2 | Introduction to Financial Markets



TEACHING STANDARDS/KEY TERMS

- 12(b)-1 fees
- "Blue chip" companies
- Bond market
- Caveat emptor
- Commodity Futures Trading Commission (CFTC)
- Common vs. preferred stock
- Consumer
- Consumer Financial Protection Board (CFPB)
- Coupon rate
- Dividend
- Dollar cost averaging
- Dow Jones Industrial Average (DJIA)
- Economic growth
- Economic indicators
- Economy
- Exchange
- Financial Industry Regulatory Authority (FINRA)
- Financial markets
- Free enterprise system
- Futures
- Gross domestic product
- Load vs. no-load
- Market economy
- Markets
- Mutual funds
- NASDAQ Stock Market
- Net Asset Value (NAV)
- New York Stock Exchange (NYSE)
- North American Securities Administrators Association (NASAA)

- Private vs. public companies
- Prospectus
- Risk tolerance
- Securities and Exchange Commission (SEC)
- State securities regulators
- Stock
- Stock market
- Supply vs. demand

Unit Objectives:

INDIVIDUALS WILL:

- Understand the relationship between risk and return.
- Learn about U.S. financial markets and investment products.
- Explore conditions that affect market prices.
- Grasp the extent and limits of government regulation of the financial markets.

Unit Teaching Aids:

LESSON 1:
- Myths Vs. Realities: Risk and Returns (Handout/Overhead)
- How Financial Markets Work

LESSON 2:
- Market Questionnaire (Worksheet)
- Public and Private Companies
- Company Questionnaire (Worksheet)

LESSON 3:
- Reading Stock Tables (Handout)
- What Makes Stock Prices Rise and Fall?
- Evaluating Stock Prices (Worksheet)

LESSON 4:
- The Role of Government in Securities Regulation
- Securities Regulation Research Project (Worksheet)

UNIT TEST:
- *(Test and Answer Key)*

For Instructors

Why Teach This Unit?

The youth and young adults of today are the investors of tomorrow … or should be. It is important, therefore, that students gain a basic understanding of how the financial markets function. This Unit is designed to help take the mystery out of the financial marketplace by demonstrating its strong presence in students' everyday lives and by providing a basic understanding of how financial markets work.

A person does not have to be rich to start investing. Today, more than half of all American adults are investors. Very few of these people are financial geniuses driving fancy cars and living in mansions. Instead, the vast majority of today's investors are teachers, doctors, carpenters, government employees, lawyers, and so on. Many started out investing very modest amounts of money — as little as $25 or $50 a month.

The financial markets will play a major role in the lives of most Americans. How much will gasoline cost? How high will the interest be on your first or next home? Market forces already affect daily life in many ways and will become only more pronounced in the future.

LESSON 1: Understanding Risk and Return

Investors run the risk of losing their money when they invest, but they stand to gain a **return —** more money — if the investment is profitable. The rule of thumb of the investing world is as follows: The bigger the risk, the bigger the potential payoff.

We learned in Unit 1 that "risk" is the chance one takes that an investment will lose money or earn less than it might otherwise earn. It follows that **"risk tolerance"** is how much risk an individual can afford to take — each person's ability to ride out the ups and downs of the market and the potential of losing what they have invested. Risk tolerances vary from person to person and at different stages in the life cycle. Young adults who invest can withstand market fluctuations to see their investments increase in value over the years and can afford to take greater investment risks than people who are older or approaching retirement.

People who can't afford to lose the principal of their investment should select savings and investments with less risk. On the other hand, investments that guarantee the safety of principal may not maintain purchasing power in times of high inflation.

Students should learn the six major types of investment risk:

- **Interest rate risk** is the risk that the value of an investment will decrease due to a rise in interest rates. The value of a fixed-return investment decreases when interest rates go up and increases when interest rates go down.
- **Business failure risk** is the risk that the business will fail and the investment will be worthless or that the business will be less profitable than expected. How well will the business do in both good and bad economic times?
- **Market price risk** is the risk that the price of an investment will go down. Many factors influence whether the price of an investment will go up or down. Few investors can consistently predict the ups and downs of the market. Investors may experience a loss if they must sell when the market price is down.
- **Inflation risk** is the risk that the financial return on an investment will lose purchasing power due to a general rise in prices of goods and services. Investment returns must be more than what the rate of inflation is in order to truly increase in value.
- **Political risk** is the risk that government actions such as trade restrictions or increased taxes will negatively affect business profits and investment returns.
- **Fraud risk** is the risk that the investment is designed to deceive and misrepresent facts. In every case of investment fraud, the seller wins while the investor loses.

LESSON 2: How Financial Markets Work

Markets are the meeting place where buyers and sellers come together and determine prices. A **financial market** is a place where firms and individuals enter into contracts to buy or sell a specific product such as a stock, bond, or futures contract. Buyers seek to buy at the lowest possible price and sellers seek to sell at the highest possible price. The market for stocks and other investments is similar in concept to a farmer's market where growers display their produce for consumers to buy. Financial markets are where money and people come together with the vibrant energy of free enterprise.

Supply and Demand

In this teaching guide, the focus is on **market economies** — economic systems in which individuals own and operate businesses. All markets comprise two basic participants: the buyer and the seller. In a financial market, the buyer is the investor. The investor may be an individual, organization, or company. A buyer or investor may also be referred to as a **consumer** — one who buys or uses products or resources. The seller is the entity offering the product and may be an individual, company, government agency, or other organization.

Prices for goods or services in any market depend largely on the supply and demand of the product or service. **Demand** is the quantity of goods that consumers purchase in a given time period. The **law of demand** suggests that the demand for a product and the cost of that product have an inverse relationship: as prices increase, demand for that product decreases. **Supply** is the amount of products or services that a producer is able to make available to consumers at a given time. The **law of supply** suggests that as a product's price increases, the quantity supplied to buyers also tends to rise. If the supply of a product is insufficient to meet the demand, consumers will pay more. On the other hand, if the supply outweighs the demand, the price will remain low. Discuss with your students some current examples of consumers paying more or less because of an imbalance of supply and demand.

An auction is an excellent place to study the effects of supply and demand. In an auction (traditional or Internet-based), goods are sold at the highest offered price. Thus, the relationship between supply and demand is obvious. Consider the following example:

Anthony, who is taking an economics class, and his family attend an auction near their home each month. A discussion in his class about supply and demand prompted Anthony to apply what he had learned about the subject at the next auction. In the first hour, a very old piano sold for $2,000, while a much newer one sold for only $150. Why the difference in price? Several people wanted the older piano, but since only one was available for purchase, the potential buyers pushed the price up until only one bidder remained when the bidding reached $2,000. In contrast, several newer pianos were available; however, only one person was interested in purchasing the newer piano so the price remained low.

Students can see the direct impact of the laws of supply and demand by going to an Internet site such as eBay **(http://www.ebay.com)**.

What Is an Exchange?

The financial markets in the United States operate under the same basic economic rules as all other markets. Financial markets are made up of a number of different "exchanges," which serve as central locations where buyers and sellers meet in person, by telephone, or by computer terminal to trade stocks, bonds, commodities, options, future contracts, and other securities. An **exchange** may be an actual building or a network of computers that serve as a central location where people buy and sell financial products.

Public corporations list their stocks and bonds on an exchange. These listings draw a steady pool of interested buyers and sellers, or investors. Just as a newspaper doesn't own the goods or provide the services it advertises, a stock exchange doesn't own the stocks and bonds it lists.

Today, several exchanges make up what is known as the **stock market** (or the financial markets). However, most stocks in the United States are listed (traded) on these two exchanges: the **New York Stock Exchange (NYSE)** and the **NASDAQ Stock Market**. The NASDAQ is a computer-based trading system, while the NYSE, formerly floor-based, is now a hybrid market combining floor-based and electronic trading. A traditional floor-based market operates in a specific building where the investor's agent must be present to trade stocks. To purchase company stock listed on the NYSE, the investor places an order through a stockbroker. The stockbroker relays the purchase to a floor trader who is on the exchange floor. The floor trader then purchases the stock.

A computer-based market, such as the NASDAQ, enables investors to trade stocks through a telecommunications network; they access the market on desktop terminals anywhere they happen to be while a mainframe computer processes the trade.

The vast majority of businesses in this country are private. **Private companies** are owned solely by an individual, a family, or a small group of people, and do not have stocks that are traded on exchanges. Private companies are on every main street in every town and scattered throughout the cities of America. Hair salons, bicycle stores, bowling alleys, restaurants, drycleaners, and other neighborhood shops are just some examples.

Conversely, **publicly-traded companies** are those that offer shares of stock, or partial ownership, to those who wish to buy into that company.

The Markets Meet the Web

The Internet and other new technologies have transformed how our markets operate. There are clear benefits to these changes, including lower costs and faster access to the markets for investors. The Internet is also used to educate many first-time investors about the basics of investing. It is essential for investors to understand that stock market investing always involves risk. Whether investing online or through other means, consumers must know the following information:

- The investments being purchased.
- The ground rules under which the stock or bond is being bought or sold.
- The level of risk involved with the investment products.

Online investors should remember that it is just as easy (if not easier) to lose money as it is to make money through the click of a button. Every prospective investor needs to know the risks unique to investing online. For example, stock prices can move quickly, so when many investors attempt to purchase (or sell) the same stock at the same time, it affects the price immediately. Just seeing a price on the computer screen doesn't mean the investor always will be able to get that price.

More information about online investing may be foundat **http://www.investingonline.org,** a Web site maintained by the North American Securities Administrators Association (NASAA).

LESSON 3: Savings, Stocks, Bonds, Mutual Funds and Other Investments

Once you have resolved to save and invest for your retirement years, the big question becomes this: What products or strategies are best suited to me and my needs?

What is Saving?

Savings are dollars of income that are not spent. The rates of return and risk for **saving** at a bank are usually lower than other forms of investment. Interest-bearing checking and savings accounts are offered by banks, credit unions, and savings and loan institutions. It pays to shop for the best rates, as interest rates, compounding frequencies, and services vary widely among financial institutions.

If the financial institution where an individual has a checking or savings account is insured by a fund of the Federal Deposit Insurance Corporation (FDIC) or the National Credit Union Administration (NCUA), that account is insured up to $250,000 by the federal government against failure of the financial institutions.

Certificates of deposit, often referred to as “CDs,” are purchased for specific amounts of money at a fixed rate of interest for a specified period of time. CDs may be purchased for as little as $500 but generally are priced at $1,000, $5,000, or $10,000. An individual may buy a CD for as little as seven days or for as long as several years. The longer the time frame, the higher the interest rate. CDs cashed in before the maturity date incur penalties in the form of lost interest. CDs are insured up to $250,000 if the financial institution where they are purchased is a member of the FDIC.

Many savers also consider U.S. Treasury securities including Treasury bills, notes, and bonds. These can be purchased through financial institutions for a fee or at the U.S. Treasury with no added cost through **http://www.treasurydirect.gov** or by calling 800-722-2678. T-bills and Treasury bonds have a face value of $100.

What is a stock?

A **stock** is an investment product that represents partial ownership of a company or corporation. The stock market represents all the companies that sell their shares to the public. It is the primary place for companies to obtain financing for their operations and for investors to profit on the growth of those companies. There is therefore a close relationship between the stock market and the economy as a whole.

Thousands of companies in the United States, known as **public companies**, invite everyone to become part owners. They do this by selling shares of the company. When an investor buys a share of a company, he or she receives a stock certificate or additional documentation that proves stock ownership. If stock shares are purchased through a brokerage firm, the broker holds the stocks in “street name,” which means the brokerage firm maintains the paperwork that proves stock ownership.

It has been said that when it comes to ownership, a public company is the most democratic institution in the world. It is an example of true opportunity. Investing in public companies is the way many people can participate in the growth and prosperity of a company. Selling stock also benefits the company. When a company sells shares, it uses the money to open new stores, build new factories, or upgrade its merchandise so it can sell more products to more customers and increase its profits. As the company becomes larger and more prosperous, its shares become more valuable. There is no guarantee, however, that a publicly-traded company will be successful. A company with a great deal of money raised from the public can suffer serious setbacks or even be forced to close its doors because of a variety of factors.

There are two types of stock shares: common and preferred:

- When investors own a public company's **common stock**, they are entitled to vote in the election of company officers as well as other important matters, and they often receive dividends on their shares. Since common stock is often riskier than preferred stock, it offers greater potential returns and losses.
- Shareholders of **preferred stock** do not usually have voting rights, but they do usually receive a fixed dividend, or share of a company's profits, which is paid to preferred stockholders before common stockholders are paid. However, owners of preferred stock pay for that privilege — usually their dividends wouldn't increase when the company's profits increase. When a company does well, the price of its preferred stock tends to under-perform the common shares. However, when a company fails, its preferred stockholders recoup their investment before common stockholders (assuming they can recoup anything at all).

The **stock price** is the amount an investor pays for one share of a public company's stock at a given moment. Outside events can make the price of a stock rise or fall. For instance, if another company or a big investor wants to buy that company, the share price could rise quickly based on that news. On the other hand, if an investor owns stock in a pharmaceutical company and its competitor wins government approval for a drug similar to one that the shareholder's company manufactures, the company's stock price might tumble. Other forces that can affect stock prices include interest rates, national and international issues or events, foreign exchange rates, financial forecasts, and new technologies. Retail stocks, for example, are subject to declines during recessions.

Dividends are the distribution of a company's profit or earnings to the company's shareholders or stockholders — the people and firms that have purchased that company's stock. Dividends are another way that you can share in a company's growth; they are usually distributed quarterly. Most companies offer a **dividend reinvestment plan**, which means that instead of paying you by check or depositing the money into your account, the amount of the dividend is used to buy more shares of the company's stock in your name. This is a good way to increase your investment in the company over time.

There are different kinds of stocks:

- The terms **large-cap**, **mid-cap**, and **small-cap** refer to the issuing company's **market capitalization**, that is, the overall value of all shares of the company's stock.
- **Growth stocks** are shares of companies exhibiting relatively fast growth in earnings, which generally causes the stock price to go up. Be certain your students understand that growth stocks are the most volatile and can fluctuate rapidly because growth companies are typically in new, or fast-growing, industries such as the high-tech sector. Growth stocks are considered riskier and often pay lower or no dividends, but appeal to investors who will accept more volatility and risk in hopes of greater appreciation in share price over time.
- **Income stocks**, on the other hand, are characterized as those that would pay high and regular dividends. Stable and well-established industries, including utilities and financial institutions, typically produce income stocks.
- **Blue chip** is the name applied to the stock of large, well-known, well-established companies with good reputations.
- **Value stocks** are those considered to be selling at lower prices or "undervalued" because the companies that issue these shares have had business setbacks or are out of favor with investors. Value stocks have been known to outperform growth stocks in slow markets — and vice versa. But there is still a risk with value stocks because not all companies recover from setbacks.

Note: Stocks are often referred to by a combination of the characteristics discussed above, such as shares of a "small-cap value" stock or of a "mid-cap growth" stock.

Students can learn more about investing in individual stocks by visiting such Web sites as Valueline **(http://www.valueline.com)** and the Motley Fool **(http://www.fool.com)**. Remind your students to make up their own minds about investing based on what makes sense for them — not solely on the opinion of someone else.

(To help your students have a better understanding of how to read the stock tables in the newspapers, go to the "Reading Stock Tables" handout.)

What are Bonds?

When investors buy **bonds**, it means they have loaned money to a company or a governmental entity. In return, that company or governmental entity promises to repay the amount borrowed plus interest. Corporate bonds are issued by publicly-owned companies, while municipal bonds are issued by state or local governments.

The price of a bond will fluctuate with interest rates. When interest rates go up, prices of currently trading bonds tend to go down, and vice versa. If the bond is held to maturity (when it becomes due), the investor will receive an amount stated on the bond known as the **face value**. For example, if a student buys five corporate bonds at $1,000 each and the bonds mature in 20 years, even if the value of the bond changes over the period of time they are held, the bonds will be worth a total of $5,000 at the time of maturity. In addition, the borrower may promise to pay you an interest payment twice a year for 20 years. The declared interest of the bond is called the **coupon rate**.

Bond investors may take advantage of several different marketplaces:

- **Municipal Securities Market** | Municipal securities are a primary way that U.S., state, and local governments borrow money to finance their capital investment and cash flow needs. States, cities, counties, and other governmental entities use municipal bonds to raise money to build schools, highways, hospitals, and sewer systems, as well as many other projects for the public good. An important distinguishing characteristic of the municipal securities market is the exemption of interest on municipal bonds from federal income taxes.
- **Treasury Securities Market** | The U.S. Treasury securities market is the largest and most liquid financial market in the world. The U.S. Treasury issues three types of securities: bills, which have a maturity of less than one year; notes, which have a maturity of two to 10 years; and bonds, which have a maturity of greater than 10 years.
- **Federal Agency Securities Market** | Federal agency debt is issued by various government-sponsored enterprises (GSEs) created by Congress to fund loans to borrowers such as homeowners, farmers, and students. Among the most active issuers of agency debt securities are: Federal Farm Credit System Banks, Federal Home Loan Banks, Federal Home Loan Mortgage Corporation (Freddie Mac), Federal National Mortgage Association (Fannie Mae), Student Loan Marketing Association (Sallie Mae), and Tennessee Valley Authority (TVA).
- **Corporate Bond Market** | Corporate debt securities are obligations issued by corporations for capital and operating cash flow purposes. Corporate debt is issued by a wide variety of corporations involved in the financial, industrial, and service-related industries.
- **Mortgage Securities Market** | Mortgage securities represent an ownership interest in mortgage loans made by financial institutions (savings and loans, commercial banks, or mortgage companies) to finance the borrower's purchase of a home or other real estate. Mortgage securities are created when these loans are packaged, or "pooled," by issuers or servicers for sale to investors. As the underlying mortgage loans are paid off by the homeowners, the investors receive payments of interest and principal. The majority of mortgage securities are issued and/or guaranteed by an agency of the U.S. Government, the Government National Mortgage Association (Ginnie Mae), or by government-sponsored enterprises such as the Federal National Mortgage Association (Fannie Mae), and the Federal Home Loan Mortgage Corporation (Freddie Mac).

Most individual bonds are bought and sold in the over-the-counter (OTC) market, although some corporate bonds are also listed on the New York Stock Exchange. To purchase a new bond issue, a financial professional will provide the bond's offering statement — the prospectus. It will spell out a bond's key terms and features, as well as the risks involved.

Investors can also buy and sell bonds that have already been issued. This is known as the **secondary market**. Many dealers keep inventories of a variety of outstanding (i.e., previously issued) bonds.

Bonds sold in the over-the-counter market are usually sold in $5,000 denominations. In the secondary market for outstanding bonds, prices are quoted as if the bond were traded in $100 increments. Thus, a bond quoted at 98 refers to a bond that is priced at $98 per $100 of face value, or at a two percent discount. Individuals can learn more about how bond market investing works at **http://www.investinginbonds.com** (SIFMA).

What is a Mutual Fund?

A **mutual fund** invests the pooled money of its shareholders in various types of investments. The fund manager buys and sells securities for the fund's shareholders. Mutual funds are not risk-free. Their values rise and fall along with the securities in the fund. The shares in a mutual fund are priced by dividing the current market value of investments owned by the mutual fund by the number of mutual fund shares. As the value of the securities in the fund goes up or down, the value of each share changes accordingly.

Benefits of mutual funds for the beginning investor include:

- Diversification
- Professional management
- Often low-cost shares
- Liquidity (shares can be bought and sold easily)

More than 8,000 different mutual funds are available on the open market. The investor should learn the objective of the fund, what securities the fund owns, the level of risk, and its earnings record as compared with similar funds. Each mutual fund has an objective that determines the types of securities in which it invests. The fund objectives are stated clearly in the **prospectus**, which is the legal document describing the fund. For example, the fund objective may be "growth and income." This growth and income fund might own common stock of emerging companies and common and preferred stocks and bonds of large, well-known "blue-chip" companies. The prospectus is available online or by mail from the investment company that manages your mutual fund.

Most mutual funds require a minimum initial investment, sometimes as low as $250, but often quite a bit higher. Mutual fund shares trade very much like stocks, rising and falling in price depending on investor interest and the performance of stocks in the fund. **The Net Asset Value (NAV)** of a mutual fund indicates its value or price per share. Like stocks, mutual funds are liquid, which means they can be easily bought and sold.

The two most common types of mutual funds are **equity funds** that invest primarily in common stocks and **fixed-income funds or "bond funds"** that typically invest in bonds or money market securities. Investors can find a hybrid in **"balanced funds"** that invest in both equities and bonds.

Also popular are **index funds**. These are relatively simple funds that aim to track indexes, or broad baskets, of different securities. Their goal is to match a particular market index such as Standard & Poor (S&P)'s 500-stock index, which measures the performance of 500 large U.S. companies.

Before investing in a mutual fund, it is important to know whether it is a load or no-load mutual fund. **Load funds** charge a sales commission; no-load funds don't. When a sales commission is paid upon purchasing a mutual fund, it is called a **front-end load**. A commission paid when you sell is known as a **back-end load**.

In theory, the advantage to "paying a load" for a fund is that there are usually staff members available to explain the fund to potential investors and advise them as to the appropriate time to buy more shares, or to sell. With some **no-load funds**, an employee merely takes your order to buy or sell, or can only offer limited support — the investor is fully responsible for understanding the investment. Even a no-load fund may still charge a **"12(b)-1 fee"** to cover the sales and marketing expenses involved in operating the fund.

One of the best resources for individuals who want to learn more about investing in mutual funds is available at **http://www.morningstar.com** (Morningstar).

Note: One key wealth-building strategy for mutual fund investors is **"dollar cost averaging" –** the technique of investing the same fixed dollar amount in an investment, such as a mutual fund, at regular intervals over a long period of time. The advantage of dollar cost averaging is that the average price per share will be lower because the cost is spread out over time, providing insulation against changes in market price. When employees purchase shares of their employer's stock through regular payroll deductions, they are dollar cost averaging.

Dollar cost averaging helps avoid the problem of buying high and selling low. Investors can make money if they sell the investment at a price higher than the average purchase price over the time that they invested. This can help limit losses during times of declining prices and accelerate profits during times of rising prices.

What are Exchange Traded Funds?

Exchange-traded funds are a cross between mutual fund index funds and stocks. Like index funds, ETFs hold baskets of securities that follow indexes. Unlike mutual funds, which are priced just once a day (at 4 p.m. eastern time), ETFs trade just like stocks throughout the trading day. Because you can buy as little as a single share of an ETF, the minimum investment for owning an ETF is typically far less than for owning a mutual fund (many ETFs trade for $10 a share or less). ETFs are bought and sold through brokers.

What are Futures?

A **futures contract** is a commitment to buy or sell a specific amount of a commodity at a specific future date and price. Futures contracts deal in products ranging from corn, soybeans, wheat, and cattle to gold, crude oil, Japanese yen, and U.S. Treasury bonds.

The concept of hedging in the futures marketplace is simple. By buying or selling in the futures market now, individuals and firms are able to establish a known price level for something they intend to buy or sell later. Buyers are thus able to protect themselves against — that is, to hedge against — higher prices while sellers are able to hedge against lower prices. Investors do not actually intend to buy the product in question (e.g., orange juice or beef); they are in the futures marketplace to speculate on future price movements.

Investors who trade in futures contracts or options, either for speculation or price risk management, have their orders to buy or sell communicated through a brokerage firm to the trading floor for execution by a floor broker. If a buyer, the broker will seek a seller at the lowest available price. If a seller, the broker will seek a buyer at the highest available price. That’s what the shouting and signaling is about in a futures exchange.

As this explanation suggests, futures are a speculative investment suited only for knowledgeable investors who are willing to take high risk. Futures investors have to be prepared to lose all of their investment — and even more.

Moving Markets

The relationship between a business and a consumer is this: If a business has something the consumer wants and the consumer has the money to buy it, a sale will be generated and the business will profit from that sale. The leading **economic indicators** reported on the news are nothing more than measurements of the buying and selling activities of companies and the spending or saving activities of individuals on a national or international scale.

The stock market is not only affected by these indicators, but is also considered an economic indicator in its own right. The stock market is a primary barometer of the economic health of a nation and a part of the economy most sensitive to what is happening in all other areas. This is because consumer and industrial spending activities drive corporate earnings, which, in turn, drive stock prices.

In any given period, the stock market will rise and fall. Each time it rises or falls, individual stock prices are affected. When a stock rises and falls more than the average stock price, it is considered volatile. During times that stock markets rise, the country is generally experiencing a period of **economic growth**. Economic growth is marked by an increase in jobs, income levels, and goods and services produced and sold.

Experts cannot tell exactly what will happen to a stock or bond's value because many factors affect these changes. Five main factors follow:

- **Investor Actions** | Individual investors, institutional investors (organizations that buy and sell high quantities of securities and have sizable portfolios) and mutual fund managers all affect the price of securities by their actions in buying or selling. For example, when large numbers of individual investors invest in the stock market on the basis of encouraging economic news, the overall market can rise, which, in turn, may "lift" the price of individual stocks.
- **Business conditions** | Profits, volume of sales, and expansion of a corporation's plants all affect investor interest and, consequently, stock prices. Health of the economy, business conditions in general, and the business cycle (i.e., the normal times of high and low sales during the year) also affect stock prices.
- **Government actions** | Government decisions regarding issues such as interest rates, taxes, trade policy, and budget deficits affect stock prices.
- **Economic indicators** | Published measurements of the buying and selling activities of companies and the spending and saving activities of individuals — including measurements of personal income levels, employment, consumer spending patterns, business inventories, and interest rates — affect various industries and subsequently stock, bond, and futures prices. The **gross domestic product** is a key indicator that is calculated by the U.S. Department of Commerce four times a year. It measures the value of goods and services produced throughout the nation in a given quarter.
- **International events and conditions** | Events around the world, such as changes in the currency exchange rates, trade barriers and restrictions, wars, natural disasters, and civil strife also affect stock prices.

When following a stock, it is helpful to graph its closing price on a regular basis. Individuals need to know the stock symbol or stock abbreviation, what exchange the stock is listed on, and the column in the newspaper where the closing price is quoted. Individuals may call the company and ask for the symbol and the exchange in which the stock is listed. Or they may look at the company's Web site for this information. In the financial section of the newspaper, individuals can find that exchange, and then look for the stock symbol. After finding the stock symbol, they should look under the column that lists the closing price. In the Wall Street Journal, the closing price is the second to last column, however, stock tables vary from newspaper to newspaper. Software such as Quicken, financial institutions' own sites, online news sites, and an increasing number of mobile apps offer individuals computer-based options for tracking stocks.

LESSON 4: Regulation of Financial Markets

The government plays an important role in the licensing and registration of investment professionals and the financial products they sell. With all this regulation, however, it is still the investor's responsibility to make wise choices about the professionals with whom they work and the products in which they invest. Individuals should always heed the advice **caveat emptor**, which means "let the buyer beware." Understanding the basics of state, federal, and industry oversight will help individuals know the extent and limits of consumer protection by these entities.

The Role of the States

State securities regulators have protected investors from fraud for more than a century. Securities markets are global; however, securities are sold locally by professionals who are licensed in every state where they conduct business. State securities regulators work within your state government to protect investors and help maintain the integrity of the securities industry.

A state securities regulator can: verify that a broker-dealer or investment adviser is properly licensed; provide information about a financial professional's educational background, work history, as well as prior run-ins with regulators that led to disciplinary or enforcement actions; provide a computer link or telephone number or address where you can file a complaint; and verify whether certain investments are registered in your state. Depending on the size of the investment advisory firm, some will register with state securities regulators and others with the federal government.

For contact information for your State securities regulator, visit the North American Securities Administrators Association (NASAA) Web site at **http://www.nasaa.org** and click on "Contact Your Regulator."

The Role of the Federal Government

Federal securities regulation focuses on the broader issue of how the stock market works on a national and international basis. Important federal securities laws were enacted in the early 1930s. A major impetus behind these new laws was the stock market crash of 1929 and the abusive practices that led to the crash. The *Securities Act of 1933* is known as the "truth in securities" law and has two objectives: to require that investors be provided with information concerning securities offered for public sale; and to prevent misrepresentation, deceit, and other fraud in the sale of securities. As a result of this law, securities must be registered with the Securities and Exchange Commission (SEC). Registration is intended to provide adequate and accurate disclosure of facts concerning the company and the securities it proposes to sell.

Registration of securities does not prevent the sale of stock in risky, poorly managed, or unprofitable companies. Nor does the SEC approve or disapprove securities based on their investment quality. While the *Securities Act of 1933* offers some consumer protection, the burden of making sound investment choices remains with the investor. The *Securities Exchange Act of 1934* created the Securities and Exchange Commission and spells out the SEC's licensing and regulatory duties. Their power extends to the over-the-counter markets as well as the stock exchanges.

The *Security Investors Protection Act of 1970* established the Security Investors Protection Corporation (SIPC), which is similar in some aspects of its operation to the Federal Deposit Insurance Corporation, which protects deposits in financial institutions. The SIPC statute provides for the return of certain customer assets in the event of financial failure of a brokerage firm that is a SIPC member. However, SIPC provides no protection for a decline in the value of securities as a result of economic conditions or fraud.

The Commodity Futures Trading Commission (CFTC) is an agency of the federal government that is similar to the SEC. It regulates futures contracts and the trading of commodities on boards of trade, which are similar to stock exchanges.

Created by Congress in 2010, the Consumer Financial Protection Bureau (CFPB) oversees a wide range of consumer financial products and services, including mortgages and credit cards. It promulgates regulations, handles consumer complaints, and promotes financial education.

Self-Regulatory Organizations (SROs)

The SEC delegates significant regulatory authority to a number of self-regulatory organizations (SROs). These SROs include the Financial Industry Regulatory Authority (FINRA). The writing and enforcing of rules is a primary focus of FINRA, which governs the activities of more than 4,000 securities firms and over 600,000 brokers. The SEC oversees the SROs using the authority it has been granted by the U.S. Congress. All SRO rules and regulations must be approved by the SEC before they can take effect. The CFTC oversees the SRO for the futures world: the National Futures Association (NFA). Among the responsibilities of the SROs are to:

- Establish rules governing trading, and other activities.
- Set qualifications for industry professionals.
- Oversee the conduct of their members.
- Impose discipline in instances of unethical or illegal behavior.
- Administer the licensing process, including background investigations and licensing examinations.

Financial/Investment Planning:

Myths Vs. Realities: Risk and Returns

Myth	Reality
If someone makes money, someone else loses it.	The stock market is not a "zero sum" game. No one has to lose money for someone else to make money. While the founder of a successful corporation can become very wealthy, so too can many others, including investors who contribute the capital that helps get the business off the ground, employees who help make the business a success, and the government, which will be rewarded through the payment of additional taxes. When a public company makes money, lots of people benefit.
The stock market will always go up.	The markets go down as well as up, and individual stocks can and do decrease in value. Taken as a whole, however, the trend in the stock market continues upward. But in the short-term it can be volatile. That is why investors are advised to do their homework, buy stock in solid companies, and then hold onto it for the long-term.
The markets are fixed.	A comprehensive system of state and federal regulation and industry self-regulation in the United States has resulted in the fairest and most efficient securities markets in the world. Although fraud still occurs, it is rare in relation to the volume of transactions that take place every day.
Investing is nothing more than gambling.	Investing isn't gambling or baseless speculation. It is taking reasonable risks to earn steady rewards. Unlike gambling, the odds are in the consumer's favor when money is invested wisely. Another key difference: A winning strategy in investing is based on knowledge rather than random chance.

Lesson Outline: How Financial Markets Work

OBJECTIVE	**Learners will:** ■ Identify markets in which they participate. ■ Discuss the relationship between supply and demand.
MATERIALS	■ Internet access. ■ "Market Questionnaire" worksheet.
PROCEDURES	**Instructor will:** ■ Discuss the markets in which students participate on a regular basis (clothing, technology, food, entertainment, etc.). Focus particularly on entertainment, as this will be the emphasis of much of the discussion. ■ Discuss recent local entertainment. Have the class list any concerts or sporting events that have taken place in your state in the past several months. What were the ticket prices for these events? Were the tickets sold out? If yes, were people selling their tickets for higher than the face value? If no, what happened to extra tickets people had — were they able to sell them, and, if so, how much did they receive? What causes people to pay more for a sold-out event than for one that is not sold out? How do consumer actions affect the price of such events? ■ Define and explain auctions (traditional and Internet). Discuss how they operate and how Internet auctions (such as eBay) and traditional auctions differ. What drives the price of an item up or down? How do individual actions affect the price of goods or services? **Learners will:** ■ Participate in class discussion ■ Visit an Internet auction site, such as eBay, to view some of the transactions. (Be cautious students do not bid on items.)

Lesson Outline: How Financial Markets Work

ASSESSMENT	■ Class participation. ■ "Market Questionnaire" worksheet may be used as a worksheet, a quiz, or an aid for students as they take notes.
ESTIMATED TIME	■ 45-50 minutes class time, plus outside homework.
BEYOND THE CLASSROOM	■ In a visit to the local mall, students can compare different stores to determine why some are more expensive than others. How do supply and demand affect the price of merchandise?

Name ______________________________ Date ____________

Worksheet: Market Questionnaire

1. What is a market?

2. What markets do you participate in regularly?

3. Name a recent local sporting event, concert, or other entertainment event that you or someone you know has attended.

4. Were the tickets sold out? Yes___ No___

5. Were tickets sold for more than the original selling price, the same price as the original selling price, or less than the original selling price? Why were people willing to pay more or less for these tickets?

6. Why are some events more expensive than others? (For example, tickets for a National Basketball Association game are more expensive than tickets to a college or high school basketball game.)

7. What is an auction?

8. How are prices set in an auction (Internet-based or traditional)?

9. How can consumers drive up an auction price?

10. What did you learn about auctions and bidding by visiting an Internet-based auction site?

Lesson Outline: Public and Private Companies

OBJECTIVE	**Learners will:** ■ Identify companies that do business in their community. ■ Determine which of these are public companies.
MATERIALS	■ Notepad
PROCEDURES	**Instructor will:** ■ Discuss the differences between a private and public company. ■ Assign students to keep a journal of all the companies they interact with for the next week. ■ Have students organize their lists to reflect which companies are public and which are private. ■ Use the "Company Questionnaire" worksheet to discuss how individuals will determine if a company is public or private. **Learners will:** ■ Keep a journal for one week of the food they eat, the clothes they wear, the cars they drive, the stores they shop in, the restaurants they frequent, the movies they see, the books they read, the music they listen to, the toiletries and cosmetics they use, and so on. At the end of the week, they will calculate how many different companies they interact with. ■ Determine which of the companies listed are publicly traded (using the method in the "Company Questionnaire").
ASSESSMENT	■ Completed list of public and private companies.
ESTIMATED TIME	■ 30 minutes class time, plus outside homework.
BEYOND THE CLASSROOM	■ Ask individuals to choose one of the companies included in their list to research in greater detail. The individuals should learn when the company opened for business; the company's ticker symbol; the company's stock performance in the past 10, 15, and 30 years; and the factors that would positively or negatively affect the stock price. Would the individual consider investing in a company like this one — why or why not?

Name ____ Date ____

Worksheet: Company Questionnaire

One of the simplest ways to determine if a company is public or private is to look them up on the Internet. You may do this by visiting the company's Web site or using Internet resources such as Yahoo! Finance at **http://finance.yahoo.com**, Google Finance at **http://www.google.com/finance**, MSN Money at **http://moneycentral.msn.com**, or CNNMoney.com at **http://money.cnn.com**.

1 **List the company's address, phone number, and Web site address**

Company Name: ____

Company Address: ____

Company Phone: ____

Company Website: ____

2 **Find the company's website and obtain the following information:**

Are you a publicly traded company? ____Yes_____No

On which exchange is your company stock traded?

____

What is your company's stock symbol or stock abbreviation?

____

How can I learn more about this company?

____

Will they send a company report, prospectus, or annual report?

____

This questionnaire has been modified from the *Motley Fool Investment Workbook*, David and Tom Gardner, 2003, Fireside, NY, page 64.

Name ______________________ Date __________

Reading Stock Tables

52-Week		Stock	YLD %	PE	Vol100s	Close	Net
Hi	Lo	(DIV)					
105.5	73.14	NKE .58	1.12	29.69	7,070	103.34	+.28
45	39.06	KO .39	1.32	25.30	16,400	40	+.09
102.3	87.62	MCD .65	3.4	21.61	2,145	95.3	+.67

In this example:

(Columns 1 and 2) Hi-Lo | During the past year (52 weeks) the highest price paid for a single share of McDonald's (MCD) stock was $102.3 and the lowest price per share was $87.62.

(Column 3) Company Name or Symbol and Dividend | The next column is the name (or abbreviation) of the firm issuing the stock, or the ticker symbol of the stock. If dividends are paid, the amount will be immediately next to the stock name. The example above shows that Nike (NKE) paid an annual dividend of $.58 per share.

(Column 4) Yield | The yield column tells us that at today's price, investors in Coca-Cola Company (KO) receive a return of 1.32% or $1.32 for every $100 invested. The yield is derived by dividing the annual dividend by the closing price.

(Column 5) PE | This column is the **price to earnings (P/E) ratio**. The P/E ratio compares the price per share to the earnings per share. It shows how much an investor is willing to pay for $1 of current earnings per share (EPS). The P/E ratio is calculated by dividing the stock's price by the company's latest 12-month earnings per share (EPS).

(Column 6) Volume | The volume column lists the volume of shares (in hundreds) that were traded on this date. In our example, 707,060 shares of Nike were traded. Volume may give you an indication of the breadth of the market for a company's shares.

(Column 7) Close | The seventh column represents the last price at which a trade was made during the trading day. For example, Coca-Cola (KO) closed at $40.00 per share on this date.

(Column 8) Net Chg | The final column of the table stands for the change between the closing price for the previous day and the current day. The net change is measured in dollar value. In the example above, McDonald's shares closed at $.67 higher than it did the day before.

Note: Free online information for detailed stock quotes are available at Yahoo Finance (http://finance.yahoo.com/), Google Finance (http://finance.google.com/finance) and many major newspapers' Web sites in the business section.

Lesson Outline:
What Makes Stock Prices Rise and Fall?

OBJECTIVE	**Learners will:** ■ Identify how current events affect market conditions and stock prices.
MATERIALS	■ If available, Wall Street Journal, Classroom Edition. Found on the Web at www.wsj.com/classroom (requires a subscription). ■ Internet access. ■ Graph paper. ■ "Evaluating Stock Prices" worksheet.
PROCEDURES	**Instructor will:** ■ Describe financial markets and how they operate. ■ Discuss the factors that affect the price of a stock. ■ List current events or news headlines that have appeared in the past two weeks. **Learners will:** ■ Use the list of events discussed in class or find an online article that discusses changes in a company or industry. ■ Choose a security that has been affected by these events. For example, if there are fluctuations in oil prices or unrest in oil producing countries, students could watch an oil company stock such as Exxon or British Petroleum. ■ Track and graph the closing price of that company stock.

Lesson Outline:
What Makes Stock Prices Rise and Fall?

ASSESSMENT	■ Completed graph of the stock and completed worksheet, "Evaluating Stock Prices."
ESTIMATED TIME	■ 45 – 60 minutes in class plus outside homework.
BEYOND THE CLASSROOM	■ Students will research the history of the Dow Jones Industrial Average. What does it tell us about the economic history of America? You can find background information here: **http://en.wikipedia.org/wiki/Dow_Jones_Industrial_Average** and **http://www.investopedia.com/articles/financial-theory/10/introduction-to-the-dow.asp**

Name ______________________________ Date ______________

Worksheet: Evaluating Stock Prices

Use the graph of the stock that you followed to answer the following questions.

1. **What stock did you follow?**

2. **Explain the fluctuations in the stock during the time you monitored its price.**

3. **What were some of the possible causes of this fluctuation (if any)?**

Lesson Outline:
The Role of Government in Securities Regulation

OBJECTIVE	**Learners will:** ■ Research several regulatory organizations to learn about the role each plays in securities regulation.
MATERIALS	■ Internet access. ■ "Regulation Research Project" worksheet.
PROCEDURES	**Instructor will:** ■ Split the class into four or five groups. ■ Assign each group to research one regulatory organization. **Learners will:** ■ Work in groups to research their assigned regulatory organization. ■ Use the "Securities Regulation Research Project" worksheet in their groups to gather information concerning their organization. ■ Plan and deliver, as a group, a class presentation outlining the assigned organization.
ASSESSMENT	■ Involvement of each group member in a 5- to 10-minute oral presentation about the organization it has been assigned to research.
ESTIMATED TIME	■ 60 minutes in class plus out-of-class research.
BEYOND THE CLASSROOM	■ Individuals will search the Web to find cases that a state securities agency or the SEC has brought against a broker, dealer, or securities firm.

Name ______________________________ Date ______________

Worksheet: Securities Regulation Research Project

Instructions: Use the sites below to begin your research. Each presentation should answer the questions below.

U.S. Securities and Exchange Commission
www.sec.gov

Financial Industry Regulatory Authority
www.finra.org

National Futures Association
www.nfa.futures.org

Your state securities regulator – visit the Web site for the North American Securities Administrators Association
www.nasaa.org

Consumer Financial Protection Board
www.consumerfinance.gov

1 **When and how was this organization established?**

2 **What are the primary regulatory responsibilities of this organization?**

3 **What information does this organization require one to complete in order to file a complaint? How can a consumer obtain this information (Internet, email, phone, fax, mail)?**

4 **Where is the closest office located?**

Name ______________________________ Date ______________

Unit 2 Test

MATCHING

A. Diversification

B. Dividend

C. Liquid

D. Stock

E. Prospectus

F. The return

G. Securities

H. Tax-exempt

I. Bond

J. Appreciation

K. Mutual fund

L. No-load

1. _____ Free of tax considerations
2. _____ Investment instruments such as stocks and bonds
3. _____ Where individuals “pool” investment money
4. _____ Ownership interest in a company
5. _____ Can easily be converted into cash
6. _____ Spreading investment money among different instruments and industries
7. _____ Legal document describing an investment offered for sale
8. _____ Amount gained or lost from an investment
9. _____ An increase in the basic value of an investment
10. _____ A debt instrument.
11. _____ A mutual fund which has no up-front or back-end fee

TRUE OR FALSE

1. **T F** A savings account can be a building block for future investing.
2. **T F** Liquid investments can be easily converted into cash.
3. **T F** Risk tolerance refers to the amount of money you place in your no-risk savings account.
4. **T F** As a general rule, the greater the risk, the higher the potential rate of return.
5. **T F** Dividends are bonus payments made to company executives.
6. **T F** Municipal bonds are issued by publicly-held companies.
7. **T F** Load and no-load mutual funds have annual management fees.

Unit 2 Answer Key

MATCHING

1. H
2. G
3. K
4. D
5. C
6. A
7. E
8. F
9. J
10. I
11. L

TRUE OR FALSE

1. True
2. True
3. False
4. True
5. False
6. False
7. True

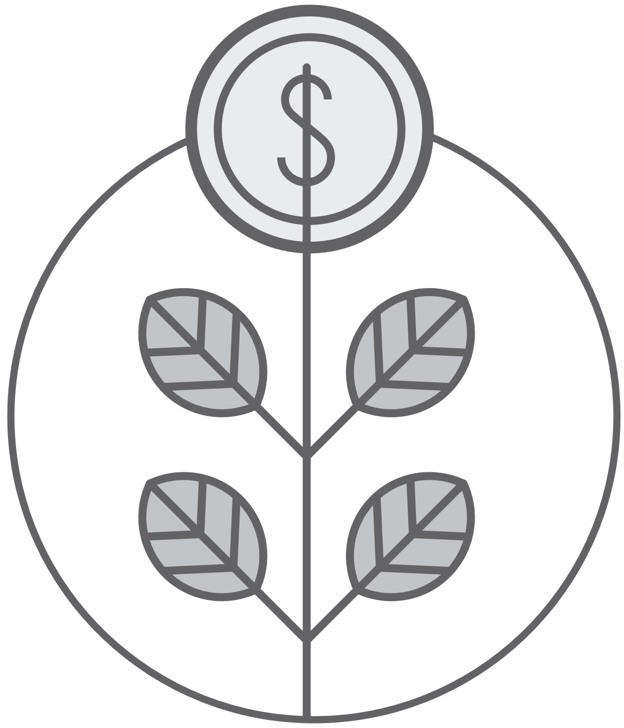
THE BASICS OF SAVING + INVESTING

INVESTOR EDUCATION 2020

UNIT 3 | Making a Financial/Investment Plan

UNIT 3 | Making a Financial/Investment Plan

TEACHING STANDARDS/KEY TERMS



- 401(k) plan
- 403(b) plan
- Annuity
- Assets
- Asset allocation
- Compound interest
- Central Registration Depository (CRD)/BrokerCheck
- Decision making
- Defined benefit/defined contribution plans
- Diversification
- Expenses
- Financial adviser
- Financial plan
- Goal
- Incentive
- Income
- Investment plan
- IRAs
- Liability
- Matching contribution
- Net worth statement
- Roth IRA

Unit Objectives:

INDIVIDUALS WILL:

- Learn the benefits of financial planning.
- Consider factors that go into financial planning and investment decisions.
- Design a personal financial/investment plan.
- Consider how to select a stockbroker or investment adviser.

Unit Teaching Aids:

LESSON 1:
- Myth Vs. Reality: Financial/Investment Planning (Handout/Overhead)
- Financial Planning Phase 1 – Financial Goals

LESSON 2:
- Financial Planning Process (Handout/Overhead)
- Financial Planning Phase 2 – Net Worth Statement
- Personal Net Worth Statement (Worksheet)
- Financial Planning Phase 3 – Income and Expense Statement
- If Expenses Exceed Income (Handout/Overhead)
- If Income Exceeds Expenses (Handout/Overhead)
- Income and Expense Statement (Worksheet)
- Financial Case Study (Handout/Worksheet)
- Employer-Sponsored Retirement Plans (Worksheets)

UNIT TEST:
- *(Test and Answer Key)*

For Instructors

Why Teach This Unit?

Americans now face more financial decisions at an earlier age than previous generations. Young people today will face decisions while still in their twenties about employer-based retirement savings plans. Some young people make the mistake of not participating in such plans. As a result, they lose out on the matching funds offered by employers, the advantages of saving on taxes, and the time value of money. Some who do take advantage of savings plans at work may not be aware of the importance of asset allocation, a strategy for selecting various investment vehicles to spread risk among stocks, bonds and cash reserves, such as money market funds and certificates of deposit. The decisions young people make about employer-based retirement plans early in their careers can have a tremendous impact on their future financial security and retirement. Older investors may simply fail to deal with saving for retirement or find the entire topic too confusing. This is a classic case of "failing to plan is planning to fail."

Individuals who plan their finances are likely to have more positive choices to make in later life. Financial planning is all about taking charge of one's circumstances. For most people, it takes more than luck to get what they want out of life — they have to know what they want and then commit to a plan to meet their goals. People sometimes miss out on becoming financially independent in early and later life because they fail to plan. They may not know what action to take or they may simply procrastinate … without knowing the long-term costs of such delays.

LESSON 1: Introduction to Financial Planning/Investing Concepts

Individuals can successfully manage their money if they have the know-how and the will to set aside some of today's income for the things they will want and need in the future. A financial/investment plan is a personal blueprint that helps a person:

- Live within their means (income).
- Identify financial priorities.
- Allocate funds to meet expenses.
- Meet financial emergencies.
- Reduce uncertainty and conflict about financial affairs.
- Achieve a sense of financial independence and control.
- Save and invest to reach financial goals.

A financial plan is a tool to get what one wants out of life. Encourage your class to think of a financial plan as a road map. A road map helps plan a trip to an unfamiliar destination. It is a necessary tool travelers need to arrive successfully at the right destination. Many people are unfamiliar with how to arrive at financial security … with the road map of a financial/investment plan they can figure out how to get to their destination.

A financial plan works best if it is simple, uses realistic income and expense estimates, is reviewed annually (or even more frequently), and adjusted to reflect changing conditions and goals. A common mistake people make is to prepare a financial plan and then fail to follow it or adjust it when necessary.

Throughout the entire financial planning process, individuals will make decisions about how to distribute their income to meet their most important expenses. These decisions will be influenced by many factors, including personal values, goals, wants, and needs.

Individuals will need to ask themselves the following questions to begin the process of framing a financial plan:

- What are my short-term, medium-term, and long-term goals?
- What is my total income after taxes and deductions?
- What are my current living expenses?
- What changes in living expenses do I expect?
- How much can I realistically save and invest each month for future goals such as college expenses or a down payment on a house or car?
- How can I protect against inflation?
- How can I develop a plan for retirement?

LESSON 2: Framing a Plan to Meet Individual Financial/Investment Goals

There are four key phases in the financial planning process:

1. **Identify financial goals.**
2. **Determine net worth.**
3. **Estimate and balance income and expenses.**
4. **Implement and modify the financial plan:**

   A. Review personal debt situation.

   B. Allocate savings and investments to reach goals.

   C. Modify as needed.

PHASE 1: Financial Goals

The first phase in designing a financial/investment plan is to identify individual **goals.** Saving and investing is easier with specific goals in mind. Goals can be divided among different categories, including short-term, medium-term, and long-term **needs** and **wants**:

- **Needs** are short-, medium-, or long-term goals that must be met. Examples are paying off a credit card, paying for a college education, and saving for retirement.
- **Wants** are short-, medium-, or long-term goals that are not absolutely necessary. Examples are saving to buy a new TV or for a special vacation, and even saving for a down payment on a house.

It is extremely important to set a manageable number of goals that are attainable rather than an overwhelming number of goals that are also unrealistic. The first step in Phase 1 is to make a list of all goals and then prioritize them according to importance and the time it will take to reach them:

- **Short-term goals** are those to be reached within a year. Examples of short-term financial goals may include building an emergency fund, saving to buy a new smartphone or TV, paying off a credit card, or establishing a holiday gift fund.
- **Medium-term goals** may be in the one- to five-year range, such as saving and investing for a first home, college expenses, and starting a family.
- **Long-term goals** are those that may not be reached for five-10 or more years. Examples of typical long-term goals are financing a new business and investing for a comfortable retirement.

After identifying personal goals, the next steps are to determine the cost of these goals.

- Set a date for completing each goal.
- Estimate how much will have to be saved and/or invested each month to reach each goal.

PHASE 2: Net Worth Statement

Individuals now know what they want to achieve with a financial/investment plan, so it is time to determine where each of them actually stands. To do this, individuals will prepare a net worth statement (and be prepared to modify it annually). A net worth statement — or personal balance sheet — is a comparison of what each of us owns (assets) and owes (liabilities) at a specific time. It is like a snapshot of an individual's or household's financial condition at a certain point in time. Follow these steps to determine personal net worth:

- List the market or resale value of all assets.
- List all liabilities or money owed to others.
- Determine total assets and total liabilities.
- Subtract total liabilities from total assets.
- Determine if there is a positive or negative net worth.

Many young adults will have a low or negative net worth as they incur debt for schooling and other large expenses. The most recent U.S. Census data (from 2011) found that 18 percent of households have a zero or negative net worth, while 26 percent of households have a net worth of a quarter million dollars or more. Like income, wealth tends to rise with educational level and is higher for homeowners and married couples.

PHASE 3: Income and Expense Statement

An income and expense statement, sometimes called a cash flow statement, lists and categorizes the money an individual receives and spends. It is a financial planning tool that helps individuals determine the following aspects of their financial picture:

- The amount of money to be set aside for future goals.
- The extent of personal debt.
- The amount of interest being paid.
- How to pay off debt faster while still saving and investing for future goals.

The income and expense statement is usually prepared on a bi-weekly or monthly basis. The statement comprises an income component and an expense component. Income is payment received as a result of investments, interest, or work.

Have your class take the following step to create the income component of this statement: Record all money that they expect to receive during the coming year. Begin with regular income, such as wages, interest, and dividends, and then add any other money that may come in. List the amounts and total them to determine how much money will be received.

An expense is an outflow of money. Because saving money is simply withholding it from current spending, it is considered an expense. The following step will create the expense component of this statement: Use old records, receipts, bills, and canceled checks to estimate future expenses. It is helpful to keep records for two or three months to see where money is being spent. Periodic expenses such as car insurance can be broken down into monthly amounts in the budget. List the expenses and determine how much money was spent during the previous 1 – 3 months.

After the students have completed the income and expense statement, ask them to consider areas that can be cut back and areas that should be increased. There are several options to consider if the income or the expenses exceed each other. For example, if the income is greater than the expenses, increasing savings and investments may be an option. However, if the expenses are greater than income, it is wise to postpone some purchases, cut expenses, or identify additional sources of income.

Consider the following if expenses exceed income:

- What expenses can be reduced?
- Which expenditures can be postponed?
- How can income be increased?

Consider the following if your income exceeds expenses:

- Increase savings or investing for goals. (This should be your top priority.)
- Satisfy more immediate wants.
- Increase giving to worthy causes.

The challenge here is to balance income and expenses to live comfortably now while saving for future goals. In the long run, people who live within their income are more likely to enjoy the freedom that comes with being financially independent.

PHASE 4: Implement and Modify the Plan

The final phase in developing a personal financial/investment plan is to implement and modify the plan. This includes several steps:

1. **Review Personal Debt Situation:** Credit allows individuals to have and enjoy things now and pay for them later. It is convenient and can be a cushion in emergencies. But credit costs money (this is especially true for young people who have no track record of repayment of debt) and can encourage overspending. People who do not pay their debts in a timely manner will soon have an unfavorable credit report, which can influence their ability to obtain new credit for years to come.

   How much debt is affordable and realistic? One rule of thumb is that no more than 20 percent of a household's take-home pay should be committed to consumer installment and credit card debt. Paying cash is almost always less expensive than using credit. When credit is used, it is best to borrow as little as possible, seek the lowest finance charge, and pay off the loan as soon as possible.

2. **Allocate Savings and Investments to Reach Goals:** The best way to take care of financial needs is to "pay yourself first." That is, establish a set amount to save and invest first each payday rather than immediately spending it on wants or needs. The habit of saving regularly for future goals is a powerful financial tool, even if the amount saved each payday is small. People living at low income levels may find it difficult to save money because most of their current income is needed for living expenses; however, even a few dollars a month can grow and contribute to improved financial security. The best motivation is to define the goals that are important to you and then to commit to the savings needed to reach them.

3. **Implement the Plan:** There is more information about different saving and investment alternatives available in Unit 2 of this teaching guide. Individuals should understand that there is nothing embarrassing about using a financial professional to help select specific investment products. There also are numerous resources at their fingertips to help them make decisions. They should be conscious, however, of the need to check out their financial professional just as diligently as they would research picking a stock or a mutual fund. (See Lesson 3.) The key things they will need to consider when it comes to setting up an investing plan are:

- **Risk tolerance** | Younger people have more time to invest, so they can take more risks and look at more aggressive investment alternatives. (See Units 1 and 2.) The greater the risk one is willing (and financially able) to assume to make money, the more money can be made. Key factors that determine your risk factor are age, income, and investing experience. Risk is the chance one takes that an investment will lose money or will earn less from one investment than another. If someone can't reasonably expect to do better than that for the risk being taken, there's no sense in taking the risk.
- **Time horizon** | The number of years one has to invest — and how long one has to achieve one's key short-, medium-, and long-term goals — will be one of the major ways to choose investment products. For example, if an individual will need money in five years, he or she wouldn't want to invest in a bond that tied up funds for 20 years (unless one is willing to pay a hefty premium). Similarly, individuals could consider an aggressive growth mutual fund if they have 20 or 30 years to reach their key goal. Investment products are like tools — when the "right tool" for the job is used, investors get the best result.
- **Diversification** | Investors shouldn't put all of their eggs in just one or even two baskets. Buying an investment product — such as a mutual fund — that involves multiple investments reduces one's overall level of risk and increases long-term potential for making a profit — this is ***diversification*** of investments. Investors seek the dual goals of growth and safety by distributing their investments among the three major asset classes: stocks, bonds, and cash or cash equivalents. The average annual market return of stocks, bonds, and cash differ substantially. Investing in all three categories helps shelter against major losses. This is true because stocks, bonds, and cash investments not only produce returns in different ways; they also tend to provide their strongest returns at different times. In most time periods, if one asset class is performing poorly, the other two are doing better.
- **Asset allocation** | Every person needs a financial plan that is suited to his or her specific needs. The right mix of stocks, bonds, and cash (see Unit 2 for descriptions) is the ideal asset allocation scheme. How this customized approach is put together can have major implications for return on investments. Individuals should recognize that asset allocation is a two-step process: First, they assign a percentage of their entire portfolio to each asset class — stocks, bonds, and cash. Second, they select a variety of investments within each of the three classes to make up that percentage. Their personal situation will determine what percentage of their portfolio is assigned (or "allocated") to each class. The best approach for each of them might be aggressive, moderate, or conservative. Aggressive investors seek growth by investing heavily in stock and stock mutual funds. Moderate investors might put 40-60 percent of their portfolios in stock or stock funds and the balance in bonds and bond funds. Conservative investors seek to hold on to what they have and, as a result, put the emphasis on cash investments and certain bonds.
- **Review and Modify the Plan As Needed** | A financial/investment plan is an ongoing process. It is a tool to help individuals reach their financial goals. Reviewing and modifying the plan is essential to the effectiveness of the overall plan. An important goal of a financial plan is to protect against financial risk.

About Employer-Sponsored Retirement Plans and IRAs

Saving money at work is one of the best ways to build up your retirement nest egg. If you are self-employed or want to save even more to "feather your nest egg," you need to understand the alternatives available to you:

Employer-sponsored retirement plans are saving and investment plans that allow employees to place funds in a tax-sheltered account for the purpose of funding all or part of their retirement. One example of an employer-sponsored retirement plan is a **401(k) plan**, a **tax-deferred** retirement plan that allows an employer to "match" employee deposits into the account up to a certain amount. Tax-deferred retirement savings plans for employees of government agencies or nonprofit organizations are known as 403(b) plans or 457 plans.

Matching contributions, or combining an employee's contribution with that provided by employers, is a very powerful incentive, or motivator, for encouraging participation in employer-sponsored retirement savings plans. It is essentially free money. In these plans, employees choose how to distribute their investments among the many different investment products offered.

Employer-sponsored retirement plans are generally grouped into two major categories: **defined benefit (DB)** and **defined contribution (DC)**. In a defined-benefit plan (often referred to as a "pension"), the employer promises to pay a defined amount to retirees who meet certain eligibility criteria. The employer pays a lifetime monthly benefit to retirees who fulfill specific age and service requirements. Benefits are usually linked to the number of years of service and salary level.

However, due to rising costs of defined benefit plans, fewer and fewer employers offer defined-benefit plans today.

An alternative to a defined-benefit plan is a defined contribution plan, which spells out what an employer puts in rather than a specific benefit you will receive in retirement. The employee receives the proceeds in either a lump sum or an **annuity** paid at various intervals. Since the benefit is not defined, the retirement outcomes depend on how well the employee does investing the money and how consistently they contribute over their working lives. In 1978, the Internal Revenue Code was modified to create 401(k) plans, authorizing the use of a new type of defined contribution plan that allows employees to make pre-tax contributions to a retirement plan.

Employee 401(k) contributions are automatically deducted from their paycheck each pay period. This money is taken out before the paycheck is taxed. Contributions are invested at each employee's direction into one or more of the mutual-fund-like options defined in the 401(k) plan. Employers often match employee contributions, but are not required to do so.

An advantage of these types of retirement plans is that employees can choose investment products that match their personal investment goals. One drawback is that many employees do not have a basic understanding of investments, and as a result, invest in products that do not match their investment goals or their risk comfort level. With proper education, employees will become comfortable with their investment choices and feel confident about their retirement preparations. Because most people will likely be required to fund a substantial part of their retirement, it is necessary to begin learning about investing early in life.

Even if workers don't have a 401(k) at work, they can set up their own **Individual Retirement Account (IRA)**. Under an IRA, they can put aside up to $5,000 of earnings yearly. The real beauty of the IRA is that earnings accumulate on a tax-deferred basis increasing the already powerful effect of compound interest. A yearly $5,000 non-deductible IRA contribution earning at a rate of 10 percent per year compounded annually over a 20-year period will grow to about $315,000. If the earnings were taxed annually in the 25 percent bracket, the account would grow to only about $232,700. Powerful stuff for those who want to invest in themselves!

The IRA alternative can be very attractive to young people and their parents and grandparents. An IRA can be used to pay for certain college and home-buying expenses. Qualified expenses include tuition, fees, books, supplies, and required equipment. For individuals attending college at least half time, room and board also qualifies. If individuals withdraw up to a total of $10,000 to buy or build a first home, they will escape the penalty. However, they will owe income tax on the withdrawal in both cases.

On the other hand, the **Roth IRA** has no deduction for contributions, but instead provides a benefit that isn't available for any other form of retirement savings: if you meet certain requirements, all earnings are free of taxes when you or your beneficiary withdraws them.

The opportunities for investing in IRAs are almost unlimited. Individuals can find sponsored IRAs in many institutions — banks, savings and loans, credit unions, mutual funds, insurance companies — offering almost every imaginable investment. If investors prefer to put together their own portfolio rather than rely on mutual fund managers, they can do it through what is called a "self-directed IRA."

These accounts, usually set up through brokers, let investors choose what they want to invest in, such as stocks and bonds of individual companies. They decide what and when to buy and sell. But if they wheel and deal too much, commissions can eat up a good portion of a nest egg. The fees attached to this type of account demand close attention, especially in the early years of an IRA, when it holds a relatively modest amount.

A **Roth 401(k)** combines some characteristics of Roth IRAs and 401(k)s. Pay-ins do not reduce taxable income because they are made with after-tax dollars. Withdrawals from them are tax-free, including earnings on the account, if an investor takes withdrawals after participating in the plan for more than five years and after they reach age 59 ½. The Roth 401(k) pay-in cap (the maximum amount you can put in) will be higher than for a Roth IRA. The standard 401(k) limits will apply per IRS Pension Plan Limitations plus additional catch-up provisions for participants older than age 50.

LESSON 3: Selecting Financial Professionals

If an individual decides to branch out beyond a retirement plan into the wider world of investing, he or she may end up needing the help of a **stockbroker** or **investment adviser** (sometimes called a “financial planner”). It is important to recognize that most financial professionals are salespeople who make most of their money on commission — which means they get part of what they sell you, just like a real estate agent or car salesman. Some investment advisers are paid on a fee basis or a percentage of the assets they manage, rather than for selling individual products.

Brokers make recommendations about specific investments like stocks, bonds, or mutual funds. While taking into account a client’s overall financial goals, brokers generally do not give a detailed financial plan. Brokers are paid commissions when their clients buy or sell securities through them.

Investment advisers help to develop a financial/investing plan. Some investment advisers also work on a commission basis and sell the products that go into a financial plan. Others are “fee-only planners” who get paid a fee to develop a plan, but do not implement it. As with brokers, investment advisers who get a commission for selling products may have an incentive to steer individuals to certain investments that are more lucrative for them.

Remember: **There is no such thing as a free lunch**. Financial professionals get paid for the work they do — just like any other professional. Some of their fees are easier to see than others. But in all cases, investors should always ask the method and amount an adviser is being paid. If the fee is quoted as a percentage, it is critical to understand how that translates into actual dollars. Investors should press financial professionals to explain why a recommended investment strategy or product is right for them. A good rule of thumb for all consumers is to invest only in those products and strategies that they fully understand.

Federal or state securities laws require brokers, advisers, and their firms to be licensed, or registered, and to make important information public. But it’s up to the individual to find that information and use it to protect his or her investment dollars. The good news is this information is easy to get – one phone call to your state securities office or Web search may save people from sending their money to a con artist, a bad broker, or disreputable firm. This is important because investors who do business with an unlicensed securities broker or a firm that later goes out of business are unprotected and there may be no way for them to recover their money.

Checking Out Stockbrokers

The Central Registration Depository (or CRD) is an online database that contains information about most brokers, their representatives, and the firms for whom they work. For instance, anyone can find out if brokers are properly licensed in his or her state and if they have had run-ins with regulators or have received serious complaints from investors. Information is also available regarding brokers' educational backgrounds and their employment history.

Investors can get information from the CRD or from either the office of their state securities regulator or FINRA. State securities regulators may provide more information from the CRD than FINRA, especially regarding investor complaints, so it's a good idea to check with them first. Contact information for state securities regulators is on the North American Securities Administrators Association (NASAA) Web site at **http://www.nasaa.org**. To use FINRA's **BrokerCheck** service, go online to **http://www.finra.org**, or call 1-800-289-9999.

Checking Out Investment Advisers

Any individual who gives investment advice for compensation, as well as the firm with whom they are employed, is required to be registered with either the U.S. Securities and Exchange Commission (SEC) or the state securities regulator(s) in those states in which they conduct business. Investment advisers who manage $25 million or more in client assets generally must register with the SEC. Those who manage less than $25 million usually register with the state securities regulator.

To find out if advisers are properly registered, read their registration forms. This document, which is referred to as Form ADV, has two parts: Part 1 has information about the adviser's business and if they have had problems with regulators or clients; Part 2 outlines the adviser's services, fees, and strategies. Always ask for and carefully read both parts of the ADV before hiring an investment adviser. Investment advisers' most recent Form ADV can be found online on the SEC website at **http://www.adviserinfo.sec.gov**. You also can get a copy from your investment adviser.

The database currently contains only those Forms ADV filed by investment adviser firms that register electronically using the Investment Adviser Registration Depository, but will eventually expand to encompass all registered investment advisers as well as their firms. Copies of Form ADV for individual advisers and firms are available from state securities regulators or the SEC, depending on the size of the adviser. To contact the state securities regulator, go online to **http://www.nasaa.org**. If the SEC registers the investment adviser, the Form ADV is available for a modest fee plus postage from the SEC.

Financial/Investment Planning: Myth vs. Reality

MYTH	REALITY
I don't earn enough money to need a financial plan.	A financial plan is a tool that helps people to live within their income. It also allows them to make better use of their money.
Investing is just for people with a lot of money.	Investing is for all income levels. People don't have to be rich to begin investing; however, they must have an understanding of basic investment products and their risks and rewards. Investing provides the opportunity for anyone to build wealth.
Young people don't need to think about saving for retirement.	Today's young people can expect to live 20 or more years in retirement. Those who begin early to contribute to a retirement savings plan are more likely to have money for a comfortable retirement because of time and compound interest. Saving small amounts of money over a long time makes use of the magic of compounding. Employer-based savings programs are tax-deferred, and the employer may contribute to your account as well. That's free money.
I'm too old to save for retirement.	It's never too late to start saving for retirement. The only thing worse than starting to plan when you are older … is not planning at all. Any prudent steps taken to ensure your security in retirement are good things.

Social Security is a business-funded program to provide financial aid to people who are retired.	Social Security is an employer and employee-funded government program that provides a base-level retirement income. It is not intended to be the sole source of retirement income. Individuals are responsible for filling the gap between income they will need in retirement and the money provided by Social Security. The additional funds can come from employer-based retirement savings plans, personal savings, and Individual Retirement Accounts (IRAs).

Lesson Outline: Financial Planning Phase 1

Financial Goals

OBJECTIVE	**Learners will:** ■ Create a set of personal financial goals, ranked in order of importance.
MATERIALS	■ 3”x 5” index cards for listing and ordering financial goals.
PROCEDURES	**Instructor will:** ■ Lead a discussion using the following statements: • “It takes more than luck to get what you want out of life.” • “You have to know what you want, then create a plan to reach your goals.” • Explain the process of creating a financial plan. • Use 3”x 5” cards for students to list financial goals. **Learners will:** ■ List three to five of their most important goals and estimate the cost of each (one goal per 3”x 5” card). Rank goals in order of importance. Individuals may modify or eliminate unattainable goals.
ASSESSMENT	■ 3”x 5” goal cards, ranked.
ESTIMATED TIME	■ 45 – 50 minutes of class time.
BEYOND THE CLASSROOM	■ Learners will describe the specific steps they will take to accomplish one or more of the goals indicated in this lesson.

FINANCIAL PLANNING PROCESS

- Identify financial goals
- Determine net worth
- Estimate and balance income and expenses
- Implement and modify the plan
    - Review personal debt situation
    - Allocate savings and investments to reach goals
    - Review the plan annually or as circumstances change
    - Modify the plan as needed

Lesson Outline: Financial Planning Phase 2

Net Worth Statement

OBJECTIVE	**Learners will:** ■ Create a personal net worth statement.
MATERIALS	■ "Net Worth Statement" worksheet.
PROCEDURES	**Instructor will:** ■ Lead a discussion about the key elements of a net worth statement: assets and liabilities. ■ Discuss valuation of assets (resale value, not the purchase price). **Learners will:** ■ Take the "Net Worth Statement" worksheet home and look at all their possessions. ■ Estimate the resale value to determine assets. ■ Determine liabilities. Do they owe any friends or family members money or have credit cards? Are they paying back a loan such as an auto loan?
ASSESSMENT	■ "Net Worth Statement" worksheet.
ESTIMATED TIME	■ 30 minutes of im-class time discussion plus outside homework.
BEYOND THE CLASSROOM	■ Help friends or family members crate a Net Worth Statement of their own.

Name ______________________________ Date ______________

Personal Net Worth Statement

Assets — What You Own	
Cash on hand	$
Checking account	$
Savings (CDs, U.S. Savings Bonds, etc.)	$
Cash value of life insurance	$
Personal property	$
Money owed to you	$
Investments (market value of stocks, bonds, mutual funds, etc.)	$
Other:	$
Total Assets:	$

Liabilities — What You Owe	
Personal loans (parents, siblings, friends)	$
Credit card balances	$
Installment loans (auto, furniture, bank loan, etc.)	$
Mortgage balance	$
Educational loan balances	$
Other:	$
Total Liabilities	$

Net Worth **= Total Assets** **— Total Liabilities**

$__________________ **= $**__________________ **— $**__________________

Lesson Outline: Financial Planning Phase 3

Income and Expense Statement

OBJECTIVE	**Learners will:** ■ Create a personal income and expense statement.
MATERIALS	■ "Income and Expense Statement" worksheet. ■ "If Expenses Exceed Income" overhead. ■ "If Income Exceeds Expenses" overhead.
PROCEDURES	**Instructor will:** ■ Lead a discussion using the following statements: • "The best way to get ahead financially in life is..." • "There's no need to keep track of what you spend, just be careful and everything will work out fine." ■ Discuss key elements of an income and expense statement. ■ Distribute the "Income and Expense Statement" worksheet and have the learners estimate how much they spend and how much they earn each month. ■ Collect the worksheets and hold them for one month. During this month, individuals will track all their expenses. ■ At the end of the month, pass out a second income and expense statement and have individuals complete it with their actual figures. Return their first income and expense statement and have them compare the amounts on both statements. How accurate were their estimates? ■ Discuss alternatives if expenses exceed income or income exceeds expenses. ■ Ask: Did the month's income exceed the expenses or vice versa? How? What items were underestimated or overestimated?

Lesson Outline: Financial Planning Phase 3

Income and Expense Statement

PROCEDURES	**Learners will:** ■ Complete the "Income and Expense Statement" worksheet in class and turn it in. ■ Record each time they spend money and receive any type of income for the next month. ■ Fill out a second "Income and Expense Statement" worksheet at the end of the month with the actual amount spent to compare with the first statement. ■ Describe the differences between their first and second income and expense statements. ■ Discuss the importance of living within their income to achieve financial independence.
ASSESSMENT	■ Two "Income and Expense Statement" worksheets
ESTIMATED TIME	■ 45 – 60 minutes in class and outside homework.
BEYOND THE CLASSROOM	■ Interview people from several generations (World War II, Baby Boomer era, Gen X, etc.) about different methods they have used to track their income and expenses and organize their finances. Ask how they budget their money and what they have done to reduce expenses and make ends meet.

IF EXPENSES EXCEED INCOME...

- Determine where overspending occurs
- Cut back on expenses
- Postpone some expenditures
- Increase income

IF INCOME EXCEEDS EXPENSES...

- Increase savings and investments for future goals
- Satisfy more immediate wants
- Increase giving to worthy causes

Name ______________________________ Date ______________

Income and Expense Statement

Income Source		Expense	
Wage from primary job	$	**LIVING**	
Wage from 2nd job	$	Rent/Mortgage	$
Gifts	$	Housing bills	$
Interest on savings	$	Food	$
Interest on earning	$	Clothing	$
Other	$	Laundry/Cleaning	$
		Other	$
		TRANSPORTATION	
		Car payment	$
		Public transportation	$
		Gas	$
		Maintenance	$
		Insurance (auto, etc.)	$
		Other	$
		OTHER	
		Entertainment	$
		Medical	$
		Emergency fund	$
		Savings	$
		Personal care	$
		Gifts	$
		DEBT	
		Credit/Loan payments	$
		Other	$
Total	$	Total	$

Discretionary income is what is left after all bills and regular monthly expenses are paid. What is your discretionary income?

Net Worth **= Total Assets** **— Total Liabilities**

$______________ = $ ______________ — $ ______________

Name ______________________________ Date ______________

Financial Case Study: Maria Lopez

Net Worth Statement

Maria is 22 years old. She works as a __________________

__________________in (City) __________________________

____

Maria's Assets | Maria owns a used car valued at $6,000. She has $200 cash in her apartment and $900 in a bank checking account. She owns jewelry valued at $400, a TV valued at $800, and a computer valued at $1,200.

Personal items such as clothes, books, luggage, a bicycle, furniture, and dishes are valued at $1,100. Maria did not purchase the optional term life insurance policy available through her employer because she has no dependents.

Maria owns a stock mutual fund with a current value of $1,500.

Maria's Liabilities | Maria owes $4,000 on her car and $6,000 on a student loan. Her credit card balance due is $850. The credit card purchases were for furniture for the apartment and clothes for work.

Car	**$6,000**
Cash	**$200**
Bank	**$900**
Jewelry	**$400**
CD System	**$300**
Computer	**$1,200**
Personal	**$1,100**
Mutual Fund	**$1,500**
Total Assets	**$ ________**
Car	**$4,000**
Student Loan	**$6,000**
Credit Card	**$850**
Total Liabilities	**$ ________**
NET WORTH	**$ ________**

Maria's Financial Goals | Maria would like to pay off her student loan, reduce her credit card debt, and increase her savings. She wants to buy a washer and dryer and continue to upgrade her wardrobe for work. A summer trip with friends would also be nice.

Maria wants to begin contributing to her employer-based retirement savings plan at work. It is called a 401(k) plan, and her employer matches her contribution. This is a salary reduction plan, so Maria would not pay income tax on the contributions and earnings are tax-deferred.

Calculate Maria's Net Worth: Total Assets — Total Liabilities ________________________

Maria's Income

Maria's annual salary is ___________. After taxes, her take-home pay is approximately ___________, which is automatically deposited into her bank checking account. In addition, Maria receives an annual cash gift of $1,000 from her grandparents. Maria reinvests her earnings in her mutual fund account. She expects no other income this year.

Maria's Expenses

Housing | Maria pays monthly rent of ____________ and her electrical bill is _______________. Monthly telephone and Internet costs are ____________________ and the gas bill is _____________.

Food and Clothing | Maria's food at home averages __________________ per month. Her food away from home averages ___________________. She spends about __________________ a month on clothing and on laundry and cleaning.

Salary	$
Take-home pay	$
Gifts	$
Rent	$
Electrical	$
Cell phone	$
Internet	$
Gas	$
Food Home	$
Food Away	$
Clothing	$
Laundry/Clean	$
Gasoline	$
Car Maintenance	$
Parking	$
License	$
Car Loan	$
Student Loan	$
Credit Balance	$

Car | Maria is beginning to think that her car is an expensive convenience because public transportation is good and she lives near a shopping center. Gasoline averages ___________ per month. Maintenance costs average ___________. Parking fees are ___________per month and license costs are ___________ per year.

Loans | Maria's monthly car payment is ___________ and her student loan payment is ___________. She pays

$50 a month on her credit card balance.

Insurance | Maria's auto insurance costs ___________ per year. She does not own life or renter's insurance. Her medical, dental, and disability insurance are paid by her employer.

Recreation | Maria spends ___________ on health club dues and ___________ on movies. She enjoys reading, hiking, and swimming.

Other | Maria spends about ___________ a month on haircuts and personal care. She contributes ___________ a month to a charitable organization and spends about ___________ a year on gifts for family and friends.

Savings and Investments | Maria knows that saving regularly is important so she sets saving as a regular monthly expense.

Her emergency fund is the $900 in her checking account. She would like to increase it to an amount equal to three months' living expenses. She authorized the bank to automatically deposit $50 each month from her checking account into her mutual fund account. She also plans to contribute to the 401(k) plan at work.

Auto Insurance	**$**
Health Club	**$**
Movies	**$**
Personal	**$**
Gifts	**$**
Savings	**$**
Emergency	**$**
Mutual Fund	**$**
401(k)	**$**

Lesson Outline:
Employer-Sponsored Retirement Plans

OBJECTIVE	**Learners will:** ■ Analyze an investor's plan for dividing savings among stocks, bonds, and cash reserves in an employer-sponsored retirement saving/investing plan.
MATERIALS	■ "Employer-Sponsored Retirement Plans" worksheets.
PROCEDURES	**Instructor will:** ■ Review the relative risks and returns that might be expected from stocks, bonds, and cash reserves using "Pyramid of Investment Risks" from Unit 1. ■ Ask individuals to explain the difference between a stock and a bond. Give examples of cash reserves. Historically, which categories of investments have yielded the greatest long-term return — stocks, bonds, or cash reserves? ■ Define and discuss time value of money, diversification, and asset allocation. ■ Have individuals complete the "Employer-Sponsored Retirement Plan" worksheet. ■ Debrief the activity by having individuals discuss why they chose the option (aggressive growth, growth, moderate growth, or conservative growth). **Learners will:** ■ Participate in the class discussion. ■ Complete the "Employer-Sponsored Retirement Plan" worksheet.

Lesson Outline:
Employer-Sponsored Retirement Plans

ASSESSMENT	■ From the completed worksheets and class discussion, determine whether the individuals grasped the concepts of saving, investing, risk, time value of money, and diversification as applied to asset allocation decisions.
ESTIMATED TIME	■ 45 – 60 minutes of class time.
BEYOND THE CLASSROOM	■ Learners will interview someone who has retired about retirement preparation. Among other questions they may ask, "What would you do differently about saving for retirement if you were young again?" ■ Learners will interview local high school graduates about their experiences regarding saving part of their income through employer-sponsored saving/investing plans.

Name ______________________________ Date ____________

Employer-Sponsored Retirement Plans

Jim and Tina are engaged to be married. Prior to their marriage, they discussed their knowledge and feelings about money. One financial issue they are currently exploring is their employee-sponsored retirement programs. They studied information from their employee benefits offices and also checked the Internet for information on 401(k) plans and asset allocation options. Finally, they spoke with parents and friends who had experience with employer-based savings programs. Below are some of the questions they asked.

QUESTION: Should we join the employer-sponsored program?

Contributing to 401(k) plans can help employees prepare for a financially secure future, especially since some employers often match employee contributions. It's never too soon to start a regular investing plan to take advantage of the tax-deferral and compounding that 401(k) plans offer.

QUESTION: How should we divide our contributions among stocks, bonds, and cash reserves?

There are no easy answers here. Decisions on how to divide Jim and Tina's retirement contributions are dependent on their risk tolerance, the number of years until retirement, and the options provided in their employer-sponsored plans. Here are some ideas Jim and Tina can use:

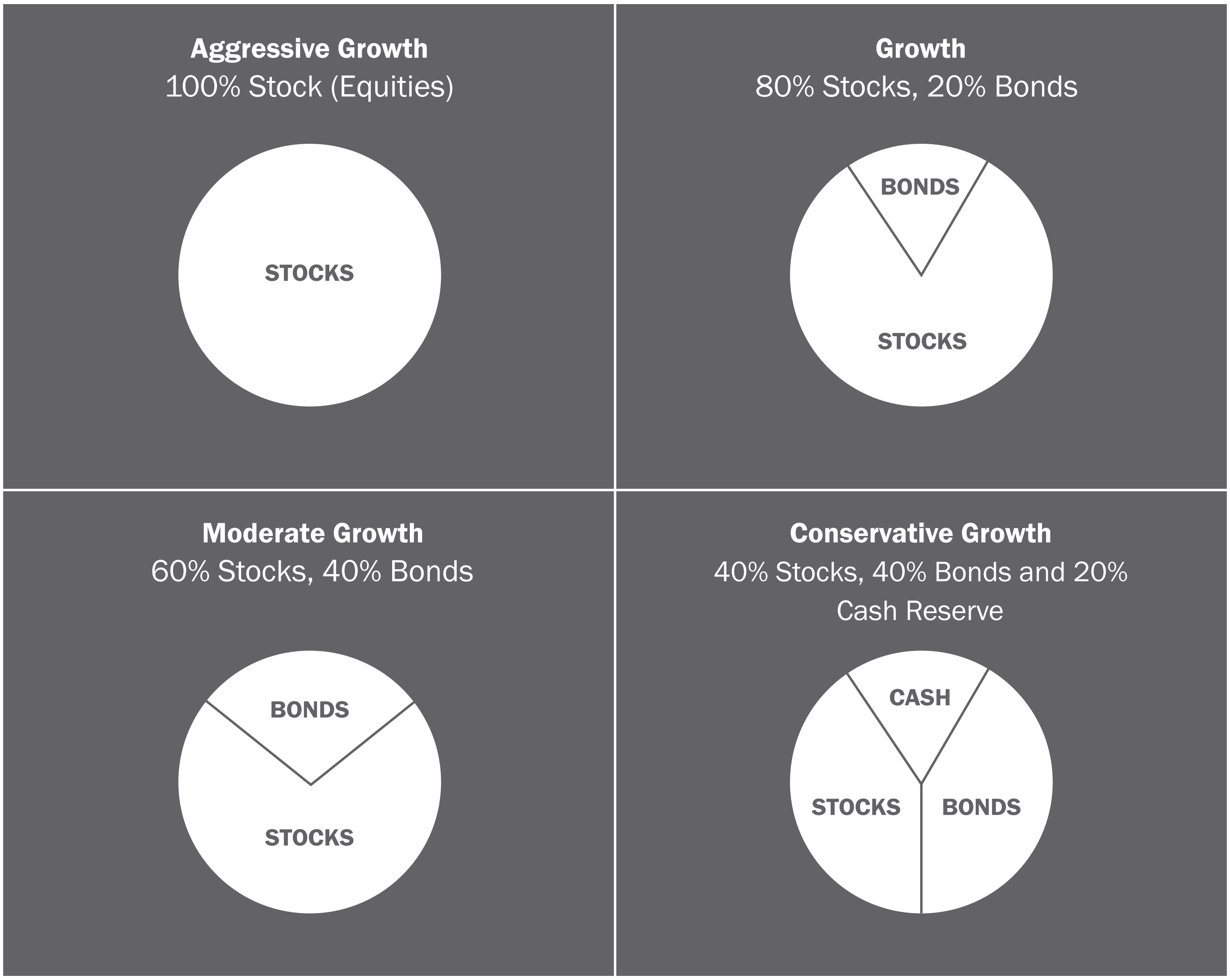
- Diversify to reduce risk.
- Time is on their side so they can assume greater risk.
- Other investment advisors say that young people who have 30 to 40 years before retirement can afford to be much more aggressive with stocks because they have more time to ride out the market and make up for losses. Historically, stocks have outperformed bonds significantly, but there are no guarantees of future performance.
- Individuals must determine their preferences and understand the trade-offs of both options.

QUESTION: Can we use the money in our employer-based savings plans for emergencies before we retire?

Yes, Jim and Tina can borrow from their retirement savings plan, but they will not borrow unless absolutely necessary. Borrowing will reduce earnings because the principal has decreased and may trigger income taxes and penalties. As an alternative, Jim and Tina decide to seek other loan options.

Decision Time — Initial Asset Allocation

Jim and Tina have narrowed their allocation choices to four options.



Which plan would you recommend for Jim and Tina? Give reasons for your answer.

Jim and Tina know that their 401(k) plans give them the option to alter their allocations if their goals change or if they find the allocation too conservative or too risky. What might be the reason(s) to do this?

Name ____ Date ______________

Unit 3 Test

MULTIPLE CHOICE

1. A ______________________ is a road map to help you plan your future.
2. Saving $20 a week to buy a new TV is an example of a _________________________ financial goal.
3. ________________________ refers to the mix of stocks, bonds and other investment vehicles individuals develop as part of their financial/investment plan.
4. "Don't put all your eggs in one basket" is an example of ________________________ in your financial / investment plan.
5. The securities agency regulates ________________________ in your state.
6. Background information on individual financial professionals is available from the ______________________.

Diversification	Financial/Investment plan	Investment advisers
Asset allocation	Short term	Central Registration Depository

TRUE OR FALSE

1. T F Financial/investment plans, once developed, should not be modified.

2. T F Since young people have more time to invest, they can afford to take more risks in their investments.

3. T F Having a combination of varied investments in your portfolio reduces your overall risk to loss.

4. T F An employer match is a strong disincentive for employees to contribute to 401 (k) plans.

5. T F Investing in mutual funds is a good way to achieve diversification.

6. T F The ADV form will help you check the experience and services of investment advisers you may be considering hiring.

Unit 3 Answer Key

MULTIPLE CHOICE

1. Financial/Investment plan
2. Short range
3. Asset allocation
4. Diversification
5. Investment advisers
6. Central Registration Depository

TRUE OR FALSE

1. False
2. True
3. True
4. False
5. True
6. True

UNIT 4 | Investment Fraud

Unit 4: Investment Fraud

TEACHING STANDARDS/KEY TERMS

- Affinity fraud
- Boiler room
- Critical-thinking skills
- Fraud
- Online Fraud
- Ponzi Schemes
- Precious metals
- State securities regulators
- Stock swindles
- Telemarketing fraud

Unit Objectives:

INDIVIDUALS WILL:

- Understand how investment fraud works.
- Learn the warning signs of investment scams.
- Understand the duty to report investment scams.
- Examine how government regulators work to stop investment fraud and help victims.
- Engage in a role-playing exercise to experience an actual fraudulent investment sales pitch.

Unit Teaching Aids:

LESSON 1:	■ Investment Fraud: Myth and Reality (Handout)
	■ Investment Scams (Overhead)
LESSON 2:	■ How Telemarketing Fraud Works (Handout)
LESSON 3:	■ Investment Fraud Script (Classroom exercise)
	■ Investment Fraud Simulation (Worksheet and Answer Key)
	■ Victim-Proof Yourself (Overhead)
UNIT TEST:	⊞ *(Test and Answer Key)*

For Instructors

Why Teach This Unit?

The best defense against investment fraud is to become a smart investor. Individuals of all ages who do not know how to make sound economic decisions about investing may become victims of investment fraud. On the microeconomic level, the unwary victims of investment fraud often suffer catastrophic financial consequences. At the macroeconomic level, the consequences include lost confidence in legitimate marketplaces and the vanishing of productive capital that might otherwise generate jobs, tax revenues, and other important byproducts.

Spotting and avoiding investment fraud will sharpen critical-thinking skills that can be used by individuals in other situations where important decisions based on sound reasoning are required. Although there are many types of investment swindles, the tactics of con artists do not differ from scheme to scheme. Contemplating the potential individual economic consequences of fraud allows individuals to see in vivid terms why and how ethical behavior should guide their conduct.

LESSON 1: Introduction to Investment Scams, Schemes, and Swindles

Fraud involves deceiving a person by misrepresenting the truth in order to deprive them of something, such as their hard-earned savings. However, for the victims, investment fraud is all risk and no return. State and federal officials have estimated that financial swindles cost American consumers $40 billion a year.

Government regulators have limited resources to fight financial fraud. Experts warn that no one is completely immune to the seductive pitch of the investment con artist who will tell potential victims exactly what they want to hear. They may use email … or Web sites … or the phone … or in-person contact. Swindled victims range from the rich to lower-income, blue-collar workers. Celebrities, college presidents, accountants, teachers, manual laborers, and high school students are among those who have been swindled out of all or part of their hard-earned savings. Even if swindlers are caught and prosecuted, many investors never get a penny of their money back.

The best protection against investment fraud is to learn how to spot and avoid the various types of scams. Con artists appeal to the greed of some victims and, in other cases, fears about such things as failing to accumulate enough money to meet catastrophic medical bills, send children to college, or fund retirement. Keeping in mind that no group of investors is immune to con artists, does the average person stand a chance with a swindler? Yes, but only if he or she allows critical thinking to guide the decision-making process. When greed or fear are the deciding factors, financial disaster is all too likely to follow.

Major Types of Investment Fraud

Investment con artists or swindlers know what it takes to get a consumer's money. Some swindlers focus on specific groups such as church groups, African Americans, Latinos, doctors, or the elderly, and offer pitches tailor-made to their needs and concerns. Others take advantage of economic downturns and employment uncertainty with glowing reports on "can't-lose, no-risk" opportunities.

Swindlers now routinely take advantage of the Internet, email, and other high-tech channels to solicit fraud. There are even schemes that have been promoted via Twitter and Facebook. It is important to be aware of the most common types of investment fraud and the key warning signs for each type. There are five main types of investment scams that consumers are likely to encounter:

- Online Fraud
- Affinity Fraud
- Pyramid Schemes
- Ponzi Schemes
- Stock Swindles

Online fraud is a relatively new and growing threat. Social networking — via Facebook, Twitter, LinkedIn, eHarmony, and other online social networks and communities — makes it faster and easier for users to meet, interact and establish connections with other users anywhere in the world. While social networking helps connect people with others who share similar interests or views, con artists infiltrate these social networks looking for online fraud targets.

By joining and actively participating in a social network or community, the con artist builds credibility and gains the trust of other members of the group. The scammer has immediate access to potential victims through their online profiles, which may contain sensitive personal information such as their dates or places of birth, phone numbers, home addresses, religious and political views, employment histories, and even personal photographs. The con artist takes advantage of how easily people share background and personal information online and uses it to make a skillful and highly targeted pitch.

Online investment fraud has many of the same characteristics as offline investment fraud. Learn to recognize these red flags:

- Promises of high returns with no risk. Many online scams promise unreasonably high short-term profits. Guarantees of returns around 2 percent a day, 14 percent a week, or 40 percent a month are too good to be true. Remember that risk and reward go hand-in-hand.
- Offshore operations. Many scams are headquartered offshore, making it more difficult for regulators to shut down the scam and recover investors' funds.
- E-Currency sites. If you have to open an e-currency account to transfer money, use caution. These sites may not be regulated, and the con artists use them to cover up the money trail.
- Bonus if you recruit your friends. Most cons will offer bonuses if you recruit your friends into the scheme.
- Professional websites with little to no information. These days anyone can put up a website. Scam sites may look professional, but they offer little to no information about the company's management, location, or details about the investment.
- No written information. Online scam promoters often fail to provide a prospectus or other form of written information detailing the risks of the investment and procedures to get your money out.

Affinity fraud is the term used to describe investment schemes that prey upon members of identifiable groups. Con artists promote affinity scams that exploit the sense of trust and friendship that exist in groups of people who have something in common. The pitch might sound something like this:

"Hi, Juan. This is Joe calling again. Juan, your friend Sue introduced us at the neighborhood picnic, remember? I am calling back about that great investment I was telling you about. Listen, I just mailed Sue a huge check. The returns on this investment are out of this world. Are you ready to finally get in on this risk-free deal too? Now Juan, your questions are wasting time. Of course it is a good investment. Just look how much money Sue is making. You don't want to miss out, right? Great. I knew you would come around. Now remember, don't tell anyone about this. We don't want them asking annoying questions and trying to take a cut of your money."

Con artists recognize that the tight-knit structure of many groups makes it less likely that a scam will be detected by regulators and law enforcement officials and that those who become victims will be more likely to forgive — or even make excuses for — one of their own. Affinity fraud is also dangerous because the usual investment schemes promoted by strangers don't apply. In these cases, a friend, colleague, or someone else who inspires trust may introduce the investor to the scheme.

Affinity fraud swindlers will enlist respected leaders within a community or group to spread the word about an investment deal. The key to avoiding affinity fraud is to check out everything, no matter how trustworthy the person may be who presents the investment opportunity.

Many fall prey to affinity group fraud in which a con artist claims to be a member of the same ethnic, religious, career, or community-based group. "You can trust me," says the scammer, "because I'm like you. We share the same background and interests. And I can help you make money." Another equally effective pitch, if the con artist is not a member of the group, is to lull members into a misplaced trust by selling first to a few prominent members, then pitching the scam to the rest by using the names of those previously sold. The effect is the same: Once the connection to the group is understood, the natural skepticism of the individual member is overcome, and one more group name is added to the sales column.

Once a victim realizes that he or she has been scammed, too often the response is not to notify the authorities but instead to try to solve problems within the group. Swindlers who prey on minority groups play the loyalty angle for all it's worth. Religious affinity group fraud also continues to be a widespread problem, according to state securities regulators. And swindlers who prey upon people of their own religion come in all denominations.

What to look for here … and what to do to protect yourself:

- Beware of the use of names or testimonials from other group members. Scam artists frequently pay out high returns to early investors using money from later arrivals. Accordingly, early investors may be wildly enthusiastic about a scheme that may collapse entirely once you`ve invested.
- Ask for independent professional advice from a neutral outside expert not in your group — an accountant, attorney or financial planner — to evaluate the investment.
- Ask your state securities agency for help. Before investing any money, call your local securities agency in order to learn more about the salesperson and firm. The simplest inquiry is to ask if they are registered to do business in your state and if the investment is allowed to be sold. If one or the other is not registered, that is a sure warning to inquire further.

Pyramid schemes operate on the principle that each member of a group will receive a profit or a cut for recruiting new members to join the scheme.

Pyramid investment scams are different from legitimate sales organizations that recruit individuals to expand their sales staff. Legitimate sales firms recruit new salespeople to sell tangible products. Illegal pyramid schemes offer participants payment for recruiting new members into the sales force rather than for selling products. These multi-level marketing frauds often spread quickly via word-of-mouth, the Internet, and social media. Recent investigations of these frauds have involved Spanish, Portuguese, Brazilian, and Asian-American communities, but anyone can be vulnerable. Pyramid swindles often expand rapidly via the Internet ensnaring more unsuspecting victims.

The problem with pyramid schemes can be explained simply: There are not enough potential participants in the whole world to keep pyramids growing steadily for even a few months. Warning signs of pyramid scams include:

- Sky-high profits are promised for a small amount of effort.
- Sellers and buyers are expected to recruit new sellers and buyers to keep the pyramid growing.
- People must pay a membership fee to participate in the scheme.
- If products are offered, they will cost more than similar products.
- Unrealistic claims are made about product quality or performance.
- Participants are paid for recruiting others.

Ponzi schemes are a type of pyramid scheme named for Charles Ponzi who duped thousands of people in the U.S. and worldwide into investing in a postage stamp speculation scheme. Ponzi determined that it was possible to take advantage of differences between U.S. and foreign currencies to buy and sell international mail coupons, which were something like international postage stamps.

Ponzi told investors that he could provide a 40 percent return in just 90 days compared to five percent a year for bank savings accounts. Ponzi was deluged with funds from investors, taking in $1 million during a single three-hour period. Although he paid a few early investors in order to make the scheme look legitimate, an investigation found that Ponzi had purchased only about $30 worth of the international mail coupons. Modern-day Ponzi schemers work on the "rob-Peter-to-pay-Paul" approach: money from new investors is used to pay off earlier investors until the whole scheme collapses.

Ponzi schemes are alive and well today. Wall Street mogul Bernard Madoff perpetrated a multi-billion dollar scam that defrauded investors around the world for decades until his arrest in December 2008. With total estimated losses for investors of more than $17 billion, Madoff's fraud led many to financial ruin and his name is now synonymous with what many consider one of the largest Ponzi schemes in history.

The good news, and what every investor should know, is that Ponzi schemes are not too difficult to detect if you know the warning signs. A few simple actions can help investors sidestep the potentially devastating impact of a classic Ponzi scheme.

Ponzi schemes often have the following characteristics:

- Promises of very large returns on an investment, such as "double your money in 60 to 90 days."
- A "can't lose" scheme for making money that others have overlooked.
- Payments are made to a few early investors to prove that the investment isn't crooked. These fortunate few are known as "songbirds," because they sing the praises of the scam to others, thus bringing in new victims.
- The Ponzi scheme collapses when the number of previous investors seeking a return exceeds the number of new investors bringing in additional money.

Stock swindles pose a major threat to consumers. In some cases, unscrupulous brokers take small, little-known companies, hype them in order to drive up their market value, and then dump their stock onto the market and make off with major profits before the stock prices collapse.

In the 1980s, stock swindlers promoted the new technology of computers. A decade later, companies on the verge of finding a cure for AIDS were all the rage. Since stock swindlers often rely on what is in the news to help sell their victims on the idea of investing, one type of stock that is now being manipulated is anything related to the marijuana industry, which is now becoming legal in a number of states.

Whatever the focus, the tactics of stock swindlers vary little from the following formula: Pump up investors with either bogus or misleading information, watch the price of the stock jump, sell the promoter's inexpensive shares at the highest prices, and then, when the price of the stock collapses, move on to the next stock swindle and more victims. For the stock swindlers, it's a chance to reap often huge profits from the overinflated price of either low-value or worthless stocks. For the victims, it's a case of responding to the lure of a quick killing in the stock market … and getting "killed" financially in the process.

To see how investment swindles use e-mail to hype investors, go to **http://www.investingonline.org/isc/index.html** (Investing Online Resource Center) and go through the "Don't Get Burned" simulation.

LESSON 2: How Telemarketing Works — Inside the Boiler "Room"

E-mail and Web sites are the newest tools of scam artists. As a result, Internet-based scams are growing at a rapid pace today. However, the telephone remains the weapon of choice for many swindlers. A phone scammer can use the telephone to contact 100 or more potential victims in a single day. These swindlers use the phone as a weapon in much the same way that a mugger uses a weapon. Databases are used to generate special lists of people who may be more likely than others to fall into the trap of a particular investment scam. Con artists who operate by phone are often said to be engaging in "boiler room" operations. This term for the calling center is used because it is where swindlers "turn up the heat" on their potential victims.

Fraudulent sales callers have one thing in common: They are skilled liars and experts at deceit. Their success depends on it. Many are coached to say whatever it takes to get the victim's money. The callers make hundreds of repetitious calls, hour after hour.

How can one tell a legitimate telemarketing call from the seductive sales pitch of a swindler?

There is no way to determine whether a sales call is honest simply by talking with someone on the phone. No matter what questions are asked, skilled swindlers will have ready answers. That's why sales calls from unknown persons should always be thoroughly researched before investing.

Phone swindlers are likely to know more about their potential victims than will be known about them. Con artists may know all about the people they call: age and income, health and hobbies, occupation and marital status, education, the cost of their home, what magazines are subscribed to, and whether they have bought by phone in the past. They assume that everyone wants more income, are receptive to a bargain, and will be reluctant to be discourteous to someone on the phone.

Phone swindlers are extremely good at sounding as though they represent legitimate businesses. They offer investments, describe employment opportunities — the list goes on. One can never assume they will immediately recognize a phone scam. Innovative swindlers constantly devise new schemes.

Here are the hallmarks of phone-based investment scams:

- **Sales pitches with slick talk about little or no risk, secret tips, and an unrealistically high rate of return** | The rate is usually much greater than that from more traditional investment opportunities.
- **Demand for immediate action** | The last thing a phone swindler wants is for a potential victim to have time to reflect upon the phony investment or, even worse, seek the advice of a trusted, knowledgeable third-party, such as an accountant, broker, securities regulator, or banker. Swindlers often push victims to send money immediately or offer to pick it up by courier or delivery service.
- **No disclosure of the street address of the boiler room operation** | Instead, con artists will frequently use a mail drop. This decreases the chances of being caught by local law enforcement officials.
- **No use of the U.S. mail system** | Many con artists fear that federal mail fraud statutes will be invoked against them as a result of their schemes, so they commonly resort to alternate delivery methods, including overnight delivery services and couriers to pick up the money.
- **Stalling suspicious investors who suspect that they have been defrauded** | This process may involve lull letters, in which the promoter of the scam blames the temporary delay in the promised high returns on various factors, including weather, union problems, delayed equipment delivery, labor problems, government red tape, and so on. Such excuses may provide the con artist with valuable additional weeks or months in which to swindle hundreds of additional victims.
- **Pulling a vanishing act** | When the heat is on, telephone con artists move on to the next city or state. Very often, this will also involve a switch in scams, so someone who is a precious metals salesperson today may be selling $99 round trips to Hawaii next week.

LESSON 3: Teach Individuals to Become “Victim-Proof”

Self Defense Tips Against Fraud

Investment con artists do not break into homes. They do not pull a gun on their victims and demand their money. Instead, they get people to give them their money … voluntarily! Most investors are at risk of victimization simply because they lack information about investment choices and are unaware of how to evaluate investment opportunities. The following four key steps will help individuals protect their money:

- **Stop and think before acting** | Never invest merely on the basis of a sales pitch. Get written information and evaluate it. Remember that the person on the other end of the phone is a salesperson even if he or she is a stockbroker, investment adviser, or has an impressive title. The first priority of people who sell investments is to make money for themselves and their employers, it is not to ensure the investor’s financial future. That does not mean that all people who promote investments are dishonest, it just means that their goals may not be the same as the investor’s.
- **Study the deal — and get input** | Read the material about the investment to determine how it is supposed to make money. Seek the counsel of someone such as a trusted broker, accountant, banker, or an experienced investor who is more knowledgeable. Never provide personal or financial information like bank accounts or credit card numbers to investment telemarketers even if they pressure for it. If the caller is legitimate, the deal will still be available after thoroughly checking it out.
- **Stick to what is clearly understood** | Consumers need to stick with investments they understand, particularly when it comes to the potential risks or rewards. They shouldn’t get caught in the trap of trusting a salesperson who claims to understand it all and promises to take care of them. It’s important to not sign papers before reading and understanding them — a lawyer or another investment professional should answer any questions concerning the agreement before signing.
- **Apply critical-thinking skills** | Students should ask themselves: Does what I am being promised really make sense? Although there are government and industry regulatory offices that actively oversee the investment marketplace, the best forms of protection are good critical-thinking skills and a sound decision-making model to determine the legitimacy of any investment opportunity. Ask common sense questions about the nature of the investment: where exactly is the money going?; how much will the salesperson get in fees or commissions?; and what is the track record of the investment? Don’t sit still for mumbo-jumbo or double-talk. When it comes to protecting your hard-earned money, the only dumb questions are the ones not asked.

LESSON 4: How Regulators Help to Protect Investors

State and federal agencies and self-regulatory organizations devote millions of dollars and tens of thousands of hours each year to stopping investment fraud. However, among of the biggest obstacles to stopping investment fraud are the embarrassed individuals who would rather suffer their losses in silence than admit that they have been cheated.

Consumers who are approached by a con artist, or have been victimized by such a person, should report it to the proper authorities. The longer a con artist goes unreported, the more money victims will lose. Enforcement authorities, such as the state securities regulator, the Financial Industry Regulatory Authority (FINRA), and the U.S. Securities and Exchange Commission (SEC) will prosecute scam artists, but they cannot carry out their responsibility without the public's help. For information about how to report investment fraud schemes, go to the following Web sites:

North American Securities Administrators Association http://www.nasaa.org

U.S. Securities and Exchange Commission http://www.sec.gov

Financial Industry Regulatory Authority (FINRA) http://www.finra.org

Most of the investment marketplace is run on the "up and up." But there are bad guys out there. Considerable state, federal, and self-regulatory agency resources are spent to combat investment fraud. However, crooks invent scams that fall between the various laws and remain out of the reach of regulators. The quick and easy portability of a swindling operation severely limits the effectiveness of the law enforcement response.

Often, by the time the rip-off is discovered, the crooks have closed up shop, moved down the road, and reopened under a new name. The problem is so massive that even vigorous, well-staffed, well-coordinated law enforcement efforts can only make a dent in the problem. On the other hand, regulators can, and do, cooperate with each other to stop some scams.

Although many regulations have been enacted and institutions established to protect consumers in their investment activities, the principle of caveat emptor — let the buyer beware — remains the investor's best protection. Legal protections are limited, fraudulent activities flourish, and once money is invested in a fraudulent scheme, the chances of getting it back are extremely small. You shouldn't be afraid to invest — but you should be on your guard against being swindled.

Investment Fraud: Myth and Reality

Myth	Reality
There are investments that offer extremely high reward with little or no risk.	The rule of thumb in investing is that a well-above average rate of return almost certainly means more risk. Otherwise no one would put money into investments of equal risk with much lower potential for return. The “high return/low or no risk” offer is almost always a sure tip-off that an investor is being deceived.
I’m too smart to be a victim.	Investment swindlers are sometimes referred to as “con artists,” short for confidence artists. That term describes how swindlers establish and build up the confidence of potential victims before taking advantage of them. A con artist can take the few things that he knows about potential victims and use them to gain their confidence. For example, if you are facing major medical bills, the swindler may promise you investment returns that will get you in and out of the hospital with money to spare. Con artists may also play on an investor’s desire to make money quickly. The con artist determines what “buttons” to push to convince the victim that the investment scheme is legitimate.

Lesson Outline: Investment Scams

OBJECTIVE	**Learners will:** ■ Discuss common types of investment fraud. ■ Recognize key indicators of investment schemes.
MATERIALS	■ Access to the Internet. ■ Copies of local newspaper.
PROCEDURES	**Instructor will:** ■ Lead a discussion using the following statements: • What are the most common types of investment fraud? • What are the key indicators of investment schemes? **Learners will:** ■ Work in groups of three to five. ■ Identify online news stories that describe an investment fraud. ■ List the fraud indicators consumers can use to protect themselves.
ASSESSMENT	■ Groups will turn in a copy of the article they reviewed as well as their list of fraud indicators.
ESTIMATED TIME	■ 45– 60 minutes of class time.
BEYOND THE CLASSROOM	■ Invite a guest from your state securities agency to discuss fraud protection. ■ Teams of individuals go through classified newspaper sections in a local newspaper to identify investment-related advertisements that they think may be fraudulent. Many con artists use classified ads to lure consumers. Individuals should compile a grid that shows the warning signs they associate with the suspect ads and the list of questions they would want to have answered before they invest.

INVESTMENT SCAMS

- Online fraud
- Affinity fraud
- Pyramid schemes
- Ponzi schemes
- Stock swindles

How Telemarketing Fraud Works – Inside the "Boiler Room"

What the con artist says…	The truth of the matter…
"You can make 30, 50, or even 100 percent in just three to six months."	If a stranger calls and offers you a way to double or triple your money in no time at all, there is zero chance that you are being approached with a legitimate business opportunity. Why would anyone be doing you this favor? Why wouldn't this wonderful investment opportunity already be snapped up by investment professionals long before you ever got a chance to see it? If this was a legitimate opportunity, doesn't it seem likely that the demand from investors would have dried up the supply of opportunities long before your name came up?
"The good news doesn't stop there. Not only can you get a way above average rate of return, but there is no risk to your capital."	Ask yourself: Is this a reasonable risk-reward statement? The rule of thumb is simple: As the potential for profit (or reward) rises, so too does the element of risk. The suggestion that sky-high returns can come with no risk is a sure tip-off to a scam.
"You must act now to take advantage of this incredible opportunity."	While it is true that some investment opportunities are fast moving and change from day to day or even hour to hour, a stranger pressuring you to act immediately is a major warning sign of an investment scam. Take the time to learn about any investment and the person promoting it. Consult first with someone — such as a trusted accountant, banker or lawyer — who might know more about the investment. Never send your money just because someone insists that you do so!

How Telemarketing Fraud Works – Inside the "Boiler Room"

What the con artist says…	The truth of the matter…
"We have secret information about a special contract that the company is getting with a Fortune 100 corporation."	This is another clear indication of a scam. Insider trading is a violation of federal law that can result in steep financial penalties and even jail time. The "secret" information or, in other scams, the claim of the recent discovery of revolutionary new technology is another tip-off that you should hang on to your wallet and hang up the phone!

Lesson Outline: How Telemarketing Fraud Works

OBJECTIVE	**Learners will:** ■ Experience a fraudulent telemarketing situation. ■ Recognize the warning signs of fraud.
MATERIALS	■ Two telephones, real or imagined. ■ Two chairs at opposite ends of a table. ■ "Investment Fraud Script" ■ "Debriefing Session Discussion Questions"
PROCEDURES	**Instructor will:** ■ Discuss how to protect oneself from fraud using the overhead "Victim-Proof Yourself." ■ Select three participants with dramatic skills — a narrator, a swindler, and a potential victim. ■ Give the three players the script in advance so that they can review it prior to the role play. Encourage them to use their own words to express the key ideas. ■ Debrief the class after the first ending. Use the "Debriefing Session Discussion Questions" along with any questions generated by the group. ■ Have individuals proceed to read the second ending. Discuss the importance of using what they have learned to expose swindles.

ASSESSMENT	■ Class participation.
ESTIMATED TIME	■ 45 – 60 minutes of class time.
BEYOND THE CLASSROOM	■ Individuals will discuss with someone else what they know about investment scams or victims. (Almost everyone knows someone or of someone who has been victimized in a scam.) They will then bring the stories back to class for a follow-up discussion. ■ Students will search the Internet to learn more about scams promoted online. How are these scams similar to and how do they differ from the telemarketing scam in the role-play? ■ Instructors may refer to Unit 3 to discuss how to check out a broker who is soliciting investments over the phone, in the newspaper, or through other mediums.

Investment Fraud Script

Introduction (Narrator)

We are about to listen in on a telephone conversation between a boiler-room scam artist and a potential investor. The swindler is lying. The question is: Will the potential victim fall for the phony pitch?

Swindler: Hello, is this Mrs. Johnson? My name is Tim Thayer. My friends call me Tim and that's what I want you to do. I'm calling today to offer you the opportunity of a lifetime. Do you have a minute to hear how you can make a lot of money in a few short months?

Victim: Well, I guess so. What's up?

Swindler: I am with the International Mining Company and for a limited time we are selling investment units in high-yield gold and silver mines in southern Texas. We guarantee that for each $1,000 you invest you will receive a $3,000 return on your money in just six months and there is no risk of loss whatsoever. Sound good?

Victim: I don't know enough about gold and silver mining to invest.

Swindler: I understand, Mrs. Johnson, and I appreciate your concern. However, you probably don't know how to build a car — and neither do I — but that wouldn't keep us from investing in General Motors or Ford stock if we knew we would earn a lot of money. Doesn't it make sense, Mrs. Johnson, to just look at the return on your investment and leave the mining to us?

Victim: I just don't know. My money is doing just fine in CDs.

Swindler: The truth, Mrs. Johnson, is that CDs are for suckers. The same goes for savings deposits, Treasury bills, municipals, and blue-chip stocks. You keep your money there earning its pitiful three percent a year and you can take it from me, Mrs. Johnson: The rich will stay rich and the poor — including you — will stay poor. What I'm talking about is putting an end to that. This is your chance to break out of the pack, move up to the big time, and take care of your future needs. Probably the hardest thing to do, Mrs. Johnson, is to make a decision. But let's face it, only the doers achieve success — because they reach out and grasp the opportunity. If you don't do anything, nothing gets done! Right?

Victim: I have to think this one over.

Swindler: Our information is very clear or I haven't done my job. I have plenty of research information to help you make an intelligent decision. If you are a serious investor, you can check everything out. Our company has business offices throughout the United States, Europe, and the Pacific Rim. We enjoy an international reputation for good management. As a matter of fact, the Securities and Exchange Commission recently listed our company as the number one investment company in safety and yield over the next 10 years. So, can you make a decision to invest today?

Victim: I still need more information.

Swindler: Fine, Mrs. Johnson. I'll send all the information you need about our company and its highly trained mining engineers. This is no secret silver mine. We have mountains of research reports if you care to read and study them. Oh, by the way, Mrs. Johnson, you do have the cash available to take advantage of this investment opportunity, don't you?

Victim: Yes, I have the money and it sounds like a good investment. I'd sure like to get that kind of return on my money, but it just sounds too good to be true. Will you put the guarantee in writing?

Swindler: This company is solid. You saw what happened to the savings and loan industry. And now the banks are in trouble. I wouldn't keep my money in any bank these days. Be safe. Put your money with us. How many units are you prepared to buy today?

Victim: Oh, I'm not sure.

Swindler: Let me help you make the decision, Mrs. Johnson. A $10,000 investment today will yield $30,000 in just six months. What do you say?

Victim: Let me think about it for a couple of days.

Swindler: Look, Mrs. Johnson, the deal is for today only. The opportunity will be gone tomorrow. You're not a procrastinator, are you? A courier will be at your house by 3 o'clock today. Just have your check or cash for $10,000 ready. You won't regret it.

Victim: You sound honest, and the investment sounds good. I'll have my check ready today at 3 o'clock.

Conclusion 1:

Narrator: The victim gave the swindler $10,000 of hard-earned savings, and never heard from the con artist or saw her money again.

Mrs. Johnson was too embarrassed to tell anyone for days. By the time she told the authorities, the swindler had moved on to take money from a new set of people who trust too much. They let greed or fear distort their common sense.

Second Ending:

Swindler: Look, I can tell that you're a person that likes to put your money to work. You obviously are a savvy investor. You recognize a good investment when you see one. You will not be sorry. I guarantee it.

Victim: As soon as I get your printed information I will discuss it with my investment adviser and my family. And by the way, Mr. Thayer, where did you say you are located? I need your address and the phone number of the headquarters office.

Swindler: You don't need to bother with all that information. Just trust me. Listen, Mrs. Johnson, this opportunity may be gone tomorrow. Units are selling fast. Shall I have a courier stop by your house today and pick up your check?

Victim: Just send the information. I want to contact the nearest Better Business Bureau and the office of my state securities regulator. I like to check these things out, you know.

Swindler: Have a pencil handy? I can give you the number of the International Better Business Bureau. It's 1-800-999-9999. Check us out. I'll call you back in an hour.

Conclusion 2:

Narrator: The 800 number turned out to be a fraud, too. The person who answered the phone was hired by the National Mining Company to say nice things about the gold and silver mine investment.

Mrs. Johnson did not invest, but rather reported the fraudulent telephone call to the state securities regulator. Local newspapers, radio, and TV newscasts picked up the story and warned others of the fraud.

The telemarketing scam moved on to the next victim. Victims are plentiful and swindlers are difficult to catch. *Caveat emptor* — buyer beware.

Name ______________________________ Date ______________

Investment Fraud Simulation

Debriefing Session Discussion Questions

1. **What were the warning signs that this was a scam?**

2. **Why did this scam appeal to Mrs. Johnson?**

3. **How will this experience affect Mrs. Johnson's trust of people who offer to help her in the future?**

4. **When the swindler is caught, what would be an appropriate punishment for the crime?**

Name ____________________ Date ____________

Investment Fraud Simulation: Answer Key

Possible Responses to Debriefing Session Discussion Questions

1 What were the warning signs that this was a scam?

- High-pressure sales techniques
- Promise of high return on money
- No-risk investment, promise of safety
- Promise of an opportunity of a lifetime
- Lies and false promises
- Limited time offer, opportunity gone tomorrow
- Critical of common investments such as CDs and savings accounts

2 Why did this scam appeal to Mrs. Johnson?

- Swindler was friendly
- Mrs. Johnson wanted to get a good return on her investment
- Swindler assured her that she did not have to know about gold and silver in order to invest
- Swindler promised that this investment would help her take care of her future goals
- Swindler promised that information would be sent to Mrs. Johnson
- Mrs. Johnson believed that the investment was good

3 How will this experience affect Mrs. Johnson's trust of people who offer to help her in the future?

- The experience will probably cause Mrs. Johnson to distrust people who offer to help. It could cause her to pass up reasonable opportunities out of fear of being cheated. In this way, fraud poisons the atmosphere of legitimate business transactions.

4 When the swindler is caught, what would be an appropriate punishment for the crime?

- Have individuals consider such factors as the severity of the offense, the impact on the victim, the damage that fraud does to legitimate marketplace transactions, and the costs of protecting people from fraud. Suggested punishments will probably range from a small fine to time in jail. The criminal record is also a form of punishment.

VICTIM-PROOF YOURSELF

- Stop and think before acting.
- Study the deal — and get advice.
- Stick to what you understand.
- Apply your critical thinking skills.

Name ______________________________ Date ______________

Unit 4 Test

TRUE OR FALSE

1. **T F** People of all income levels and professions can be taken by investment fraud.
2. **T F** State and federal officials estimate that financial swindles cost American consumers $40 billion a year.
3. **T F** It is very easy to recognize the difference between people who sell fraudulent investments and those who are legitimate business people.
4. **T F** States have agencies to fight investment fraud.

MULTIPLE CHOICE

Circle the letter that answers the question correctly.

Which of the following statements is a characteristic of securities fraud?

A. Salesperson provides accurate and complete information.

B. Salesperson is usually a local person who works for a reputable investment firm and is known to the family.

C. Salesperson guarantees that the investor will make sky-high profits.

D. Salesperson does not pressure for a quick decision.

SHORT ANSWER

1. **List four characteristics of investment pitches that could be tip-offs that the deal is a scam.**

____

____

2. **A telemarketer calls saying you have won a trip and asks for your checking account number to hold your prize. What should you do?**

____

____

Unit 4 Answer Key

TRUE OR FALSE

1. **True**
2. **True**
3. **False**
4. **True**

MULTIPLE CHOICE

C

SHORT ANSWER

1. High-pressure sales tactics, need for immediate decision, promises that sound too good to be true, promise of risk-free investments, no written information or inaccurate information, request for your credit card or checking account number, offer to pick up your money at your house, offer of a free gift or trip.
2. Hang up.

THE BASICS OF SAVING + INVESTING

INVESTOR EDUCATION 2020

APPENDIX

RESOURCES AND MATERIALS

Free and Inexpensive Materials

ALLIANCE FOR INVESTOR EDUCATION
http://www.investoreducation.org
- Organizing Your Financial Records for the New Year: 12 Resources to Keep Your Financial Goals on Track
- 10 Best Resources on the Web: Diversify Your Portfolio to Manage Risk and Maximize Return
- AIE Identifies 10 Top Saving and Investing Resource Materials in Spanish
- How to Do Your Homework as an Investor: the Web's Eight Best Resources
- Getting Started With Your Financial Plan: 11 of the Best Resources for Investors
- Monitoring and Evaluating Your Investment Performance: 10 of the Best Resources and Tools for Investors
- Investing and Finance in the Classroom: 10 of the Best Resources and Tools for Teachers

CONSUMER FINANCIAL PROTECTION BUREAU
http://www.consumerfinance.gov/
- Ask CFPB: Get Answers to Your Financial Questions
- Information for Students and Older Americans

FEDERAL CITIZEN INFORMATION CENTER
http://www.pueblo.gsa.gov/money.htm
- Practical Solutions for Protecting Your Money
- Mutual Funds: A Guide for Investors
- Ask Questions: Questions You Should Ask About Your Investments
- Saving and Investing: A Roadmap to Your Financial Security Through Saving and Investing

FEDERAL RESERVE SYSTEM BOARD OF GOVERNORS
http://www.federalreserve.gov/consumerinfo
- Building Wealth
- Privacy Choices for Personal Financial Information

FEDERAL TRADE COMMISSION
http://www.ftc.gov/bcp/consumer.shtm
- 10 Ways to Avoid Fraud
- OnGuard Online
- Investment Risks

FINANCIAL INDUSTRY REGULATORY AUTHORITY (FINRA)
http://www.finra.org/Investors
- Smart Investing: Choosing Investments
- Smart Investing: Smart Saving for College
- Protect Yourself: Investor Alerts
- FINRA BrokerCheck

INVESTOR PROTECTION INSTITUTE
http://www.iInvest.org
- DASH for the STASH Posters
- Videos on Investing Basics
- Videos Highlighting Different Types of Investment Fraud

INVESTOR PROTECTION TRUST
http://www.investorprotection.org
- Five Keys to Investing Success
- A Primer for Investing in Bonds
- Getting Help With Your Investments
- Where to Invest Your College Money
- The Basics for Investing in Stocks
- Mutual Funds and ETFs: Maybe All You'll Ever Need
- Maximize Your Retirement Investments

NATIONAL ASSOCIATION OF INVESTORS CORPORATION
http://www.betterinvesting.org/public/default.htm
- BetterInvesting Investment Clubs
- Understanding the Jargon
- Explaining Fundamental Investing
- How to Compare Stocks

NATIONAL FRAUD INFORMATION CENTER
http://www.fraud.org
- Business Fraud
- Telemarketing Fraud
- Consumer Resources

NORTH AMERICAN SECURITIES ADMINISTRATORS ASSOCIATION
http://www.nasaa.org/2815/nasaa-fraud-center/
- How to Contact Your Securities Regulator
- NASAA Fraud Ninja
- How to Spot a Con Artist
- How to Avoid Becoming a Victim
- Investor Resources
- Investor Bill of Rights
- Top 10 Investor Traps

SECURITIES INVESTMENT ASSOCIATION, FOUNDATION FOR INVESTOR EDUCATION
http://www.tomorrowsmoney.org

- Young Adults Starting Out
- For Today's Woman
- Resources in Spanish

U.S. SECURITIES AND EXCHANGE COMMISSION, OFFICE OF INVESTOR EDUCATION AND ADVOCACY
http://www.sec.gov/investor

- Teachers and Students
- Teacher Care Package
- Check Out Brokers and Investment Advisers
- Calculators

Periodicals & News Media Web Sites

BARRON'S
http://online.barrons.com

BLOOMBERG WIRE
http://www.bloomberg.com/quote/WIRE:US

BLOOMBERG BUSINESSWEEK
http://www.businessweek.com

CNBC
http://www.cnbc.com/

FORBES
http://www.forbes.com

FOX BUSINESS
http://www.foxbusiness.com/index.html

INVESTOR'S BUSINESS DAILY
http://www.investors.com

KIPLINGER'S PERSONAL FINANCE
http://www.kiplinger.com

MARKETWATCH
http://www.marketwatch.com

MONEY MAGAZINE
http://money.cnn.com

MSN MONEY
http://www.msn.com/en-us/money

SMART MONEY INTERACTIVE
http://www.smartmoney.com

US NEWS AND WORLD REPORT
http://www.usnews.com

WALL STREET JOURNAL CLASSROOM EDITION
http://wsjclassroom.com

YAHOO FINANCE
http://finance.yahoo.com

Non-IPT Teaching Guides and Resources

Case, Karl E., Ray C. Fair and Sharon Oster. ***Principles of Economics.*** 11th Ed. Upper Saddle River, N.J.; Prentice Hall. ©2013.

Garman, Thomas, and Raymond Forgue. ***Personal Finance.*** 11th Ed. Boston, MA; Centage Learning. ©2011.

The Gen i Revolution. A competitive online game to teach personal finance skills to middle and high school students. The "Murktide," a confusion about basic personal finance principles, is rapidly spreading across the population, and middle and high school students are the last line of defense against a lifetime of poor financial decisions. Council for Economic Education, 122 East 42nd Street, Suite 2600 New York, NY 10168. 212-730-7007. ©2015 **http://www.genirevolution.org/**.

Financial Literacy Training for High School Students: Asset Allocation and Security Selection. Instructional modules and handouts developed by The Center for Financial Studies at Southern New Hampshire University. The purpose of this module is to present the rudiments of asset allocation and security selection procedures. FINRA Investor Education Foundation, 1735 K Street, NW Washington, D.C. 20006-1506. © 2012. **http://www.finrafoundation.org/web/idcplg?IdcService=SS_GET_PAGE&ssDocName=P118403**

Financial Literacy Training for High School Students: Investing for Retirement. Instructional modules and handouts developed by The Center for Financial Studies at Southern New Hampshire University. The purpose of this module is to present a method for estimating the need for retirement income, the most common types of retirement savings plans, and the effects of compounding and the relative benefit of establishing a retirement savings plan as early as possible. FINRA Investor Education Foundation, 1735 K Street, NW Washington, D.C. 20006-1506. © 2010. **http://www.finrafoundation.org/web/idcplg?IdcService=SS_GET_PAGE&ssDocName=P118407**

High School Financial Planning Program®(HSFPP). Teaching guide, student workbook, PowerPoint visuals, online games, assessments. Applies financial planning process to goal setting, budgeting, credit, saving, investing, financial institutions and careers. National Endowment for Financial Education, 5299 DTC Boulevard, Suite 1300, Greenwood Village, CO 80111. 303-741-6333. Free to schools and organizations. ©2015 **http://www.nefe.org/home**.

Investor Education Resources for Adults and Families. Tools for adults and families to develop an investment plan, evaluate investment opportunities and promoters, and spot the red flags of fraud. State securities regulators provide valuable resources to help you become a more confident and informed investor. North American Securities Administrators Association (NASAA), 750 First Street NE, Suite 1140, Washington, DC 20002. **http://www.nasaa.org/2167/investor-education-resources-for-adults-and-families/**

Kapoor, Jack, and Jack R., Dlabay, Les and Hughes, Robert. ***Personal Finance***. 10th Ed. Glencoe/ Mcgraw-Hill. ©2011.

Miller, Roger LeRoy. ***Glencoe Economics Today & Tomorrow***. Westerville; McGraw-Hill. ©2008.

Miller, Roger L. and Alan D. Stafford. ***Economic Education for Consumers***. Cincinnati; South-Western Educational Publishing. ©2010.

Ryan, Joan S. ***Managing Your Personal Finances***. 6th ed. Cincinnati; South-Western Educational Publishing. ©2010.

What Older Adults Need to Know About Money. Covers catch-up retirement-planning strategies, decisions about the timing and location of one's retirement, receipt and possible taxation of Social Security benefits, pension plan distribution decisions, required distributions from retirement savings plan, and more. New Jersey Coalition for Financial Education (NJCFE), 308 West State St., Trenton, NJ 08618. ©2015 **https://njaes.rutgers.edu/money/pdfs/older-adults-money-advice.pdf**

Organizations and Associations

AMERICAN ASSOCIATION OF INDIVIDUAL INVESTORS
800-428-2244 | **http://www.aaii.com**

CERTIFIED FINANCIAL PLANNERS BOARD OF STANDARDS
800-487-1497 | **http://www.cfp.net**

CONSUMER FINANCIAL PROTECTION BUREAU
(855) 411-CFPB (2372) | **http://www.consumerfinance.gov/**

FEDERAL TRADE COMMISSION
Toll-free 1-877-FTC-HELP (382-4357) | **http://www.ftc.gov**

FINANCIAL INDUSTRY REGULATORY AUTHORITY (FINRA)
301-590-6500 | **http://www.finra.org**

INVESTOR PROTECTION INSTITUTE
202-775-2111 | **http://www.iInvest.org**

INVESTOR PROTECTION TRUST
202-775-2111 | **http://www.investorprotection.org**

JUMP$TART COALITION FOR PERSONAL FINANCIAL LITERACY
888-45-EDUCATE | **http://www.jumpstartcoalition.org**

NATIONAL FUTURES ASSOCIATION (NFA)
800-621-3570 | **http://www.nfa.futures.org**

NATIONAL ASSOCIATION OF INVESTORS CORPORATION
877-275-6242 | **http://www.better-investing.org**

NATIONAL ASSOCIATION OF PERSONAL FINANCIAL ADVISORS (NAPFA)
847-483-5400 | **http://www.napfa.org**

NORTH AMERICAN SECURITIES ADMINISTRATORS ASSOCIATION
202-737-0900 | **http://www.nasaa.org**

SECURITIES INDUSTRY AND FINANCIAL MARKETS ASSOCIATION
212-313-1200 | **http://www.sifma.org**

U.S. SECURITIES AND EXCHANGE COMMISSION
Toll-free 1-800-SEC-0330 (732-0330) | **http://www.sec.gov**

Glossary of Terms

12(b)-1 FEES — Ongoing fees that cover the costs of marketing, maintaining, and managing a mutual fund.

401(k) PLAN — A tax-deferred, employment-based retirement savings plan that allows an employer to match employee deposits into the account up to 100 percent.

403(b) PLAN — A tax-deferred employment-based retirement savings plan for government and non-profit employees that allows an employer to match employee deposits in the account up to 100 percent.

AFFINITY FRAUD — A type of investment scheme that preys upon members of identifiable groups based on things such as race, age, religion, etc.

AGGRESSIVE GROWTH SECURITIES — Stocks, bonds, and mutual funds having capital growth as their main objective.

ANNUAL PERCENTAGE RATE (APR) — Yearly interest rate charged on a credit account.

ANNUITY — An investment product that pays a specified income payable at various intervals for a fixed period of time.

APPRECIATION — An increase in the value of an asset over time.

ASSET — An item owned by an individual or organization that has monetary value.

ASSET ALLOCATION — Strategy for selecting various investment vehicles in order to spread risk among stocks, bonds and cash equivalents.

BENEFITS — Positive outcomes that result from a choice or decision.

BLUE CHIP COMPANIES — Common name for companies with a long history of trustworthy accounting, favorable returns and growth.

BLUE SKY LAWS — State laws that govern the offer and sale of securities to residents of that state.

BOILER ROOM — A slang term for the calling center used by telemarketers because it is where swindlers “turn up the heat” on their potential victims

BOND — A certificate representing a loan of money for a specific period in exchange for a promise to repay the amount borrowed with interest by the government or a corporation.

BORROWER — An individual who uses another person’s money for current use with a promise to repay that amount from future income or earnings.

CAPITAL GAINS — The increased value at the time of redemption of a security since its original purchase.

CAPITALIZATION — The overall value of shares of a company’s stock.

CAPITAL LOSS — The decreased value at the time of redemption of a security from its original purchase.

CASH ADVANCE — Cash received on a credit line at a high interest rate.

CAVEAT EMPTOR — Latin phrase meaning "Let the buyer beware."

CENTRAL REGISTRATION DEPOSITORY (CRD) — The database of FINRA-registered stockbrokers containing their work and disciplinary history.

CERTIFICATE OF DEPOSIT (CD) — A saving tool purchased for a specific dollar amount at a fixed interest rate for a specific time period.

CHOICES — Possible alternatives or options; the best option under a given circumstance.

COLLECTIBLES — Physical objects such as fine art, stamps and antiques that are purchased as an investment.

COMMAND ECONOMY — An economic system in which all decisions concerning production of goods and services are made by the government and all resources are owned by the government.

COMMISSION — The fee paid to a broker or agent fee for carrying out a transaction.

COMMODITY FUTURES TRADING COMMISSION — The regulatory organization for futures contracts and commodities.

COMMON STOCK — The securities representing equity ownership in a public company.

COMPOUND INTEREST — The interest earned on principal plus previously accrued interest.

CONSUMER — An individual who buys or uses products or resources.

COSTS (DECISION MAKING) — Negative outcomes that result from a decision.

COUPON RATE — The declared interest rate of a bond.

CREDIT — Borrowing money now with a promise to pay it back at a later time, generally with interest.

CRITICAL-THINKING SKILLS — Making clear, reasoned judgement through reasoned and well thought out processes.

DECISION — A choice made from available options.

DECISION-MAKING — The process used to determine the best possible choice at a given time based on available information and resources.

DEMAND — The quantity of goods consumers purchase in a given time period.

DISCOUNT BROKER — A financial professional who executes securities transactions with little or no individual advice and therefore charges a low commission.

DIVERSIFICATION — A strategy for reducing risk by spreading investment money among a number of investment types and industries.

DIVIDEND — The earnings on stock paid to shareholders by corporations.

DIVIDEND REINVESTMENT PLAN — The reinvestment of your stock dividends into the purchase of additional shares of that company's stock.

DOLLAR-COST AVERAGING — The Investment of the same fixed-dollar amount in the same investment vehicle at regular intervals over a long period of time regardless of price.

DOW JONES INDUSTRIAL AVERAGE (DJIA) — A market indicator that averages blue chip U.S. stocks in different categories.

ECONOMIC GROWTH — A time of general rise in a region's economy. During economic growth, more goods and services are produced, more jobs are created, and income levels rise.

ECONOMIC INDICATORS — Regularly reported statistics that evaluate business conditions and economic trends. Some of these statistics include employment, stock prices, money supply, and consumer confidence.

ECONOMICS — The study of management, distribution, and consumption of goods and services.

ECONOMY — A system of regulations and rules by which a country's production and consumption activities are managed.

EMPLOYER-SPONSORED RETIREMENT PLAN — A saving/investment plan approved by the Internal Revenue Service (IRS) that allows an individual to place funds in a tax-sheltered account for the purpose of funding all, or part, of one's retirement.

ENTREPRENEUR — An individual who establishes, maintains, and assumes the risk of a business operation.

ETHICS — The beliefs that govern an individual or community's actions.

EXCHANGE — The central location where buyers and sellers unite to execute transactions.

EXCHANGE-TRADED FUND (ETF) — A marketable security that tracks an index, a commodity, bonds, or a basket of assets. Unlike mutual funds, an ETF trades like a common stock on a stock exchange.

EXPENSE — An outflow of money.

FDIC (FEDERAL DEPOSIT INSURANCE CORPORATION) — An agency of the federal government created to guarantee bank deposits.

FEDERAL RESERVE SYSTEM (FED) — The central banking system of the U.S. that sets forth economic policies affecting the nation as a whole. The Fed maintains accounts for government agencies, regulates the buying and selling of government securities, lends money to banks, monitors and audits banks, controls the circulation of money, and many other tasks.

FINANCIAL ADVISER — A professional who provides financial information and advice; may include an employee benefits staff member, credit counselor, bank employee, broker, financial planner, accountant, insurance agent, or attorney.

FINANCIAL INDUSTRY REGULATORY AUTHORITY (FINRA) — A self-regulatory organization that operates and regulates the Nasdaq Stock Market and oversees the activities of the U.S. broker-dealer profession.

FINANCIAL INSTITUTION — An entity that provides financial services. The term usually refers to banks, credit unions, brokerage houses, and savings and loan institutions.

FINANCIAL MARKET — Markets consisting of exchanges that serve as a central location where buyers and sellers get together in person, by telephone, or by computer terminal to trade stocks, bonds, commodities, options, futures contracts, and other securities.

FINANCIAL PLAN — A systematic course of action for identifying financial goals, figuring net worth, estimating income and expenses, and using credit wisely.

FRAUD — The use of intentional misrepresentation for illegal gain.

FREE ENTERPRISE SYSTEM — An economic system that allows anyone to start a business provided they have the resources to do so.

FUTURES — A contract to buy or sell a specific amount of a commodity at a specific future date and price.

GOAL — An end result toward which effort is directed. Financial goals can be short-range (within a year); medium-range (one to five years); or long-range (more than five years).

GOVERNMENT SECURITIES — Securities offered and insured by the federal government, including treasury bills, notes and bonds.

GROSS DOMESTIC PRODUCT (GDP) — A macroeconomic indicator that calculates the value of goods and services produced throughout a nation.

HIGH QUALITY CORPORATE SECURITIES — Stocks, bonds, and mutual funds that are issued by companies with a long history of favorable returns and growth.

INCENTIVE — Rewards or penalties encouraging choices that help consumers reach their financial and non-financial goals.

INCOME — Payment received as a result of investments, interest, or work.

INDIVIDUAL RETIREMENT ACCOUNT (IRA) — Savings plans of which there are several different types of Individual Retirement Accounts allowed by the IRS to promote retirement savings that provide tax advantages and increase the effect of compound interest.

INFLATION — A general rise in prices of goods and services that reduces the purchasing power of money.

INSURANCE — A risk management tool that protects an individual from financial loss, generally in the form of a policy with premium and/or deductible payments.

INTEREST — The cost of borrowing and lending money as follows: 1. Payment received by an investor from a financial institution as a result of an investment or savings; 2. A percentage of the loan amount borrowed by a consumer paid back to the lender.

INTEREST RATE — A percentage of the principal amount that serves as the cost of using that money.

INVESTING — Money spent to increase current and/or future income; it is not insured against loss and it rises and falls with the investment market.

INVESTMENT ADVISER — A professional who provides financial information and advice specific to one's investments and financial goals.

INVESTMENT OBJECTIVES (MUTUAL FUND) — Objectives categorized by the type of investments that comprise the fund (i.e. Stock Mutual Fund, Aggressive Growth Mutual Fund, Balanced Mutual Fund or Growth and Income, Bond Mutual Fund, Equity Fund or Income Fund).

INVESTMENT PLAN — A roadmap for individuals who invest in the markets. Investment plans should maximize earnings to reach one's financial goals while protecting their capital.

LAW OF DEMAND — An economic governing principle that suggests that an inverse relationship exists between demand and cost of a product or service.

LAW OF SUPPLY — An economic governing principle that suggests that as costs increase, the quantity supplied to buyers also rises.

LENDER — An individual, organization, or company that extends credit to a borrower with the expectation that the amount will be paid back over time.

LIABILITY/LIABILITIES — The dollar value of debts owed to others.

LIMITED RESOURCES — A term indicating that one's resources may not be enough to satisfy all needs and wants.

LIQUIDITY — The ease with which an investment can be converted into cash without a loss to principal.

LOAD FUND — A mutual fund that charges a sales commission (load).

LOAN PERIOD — The time frame in which a loan must be repaid, usually stated in years.

LONG-TERM GOAL — A goal that will take more than five years to achieve.

MACROECONOMICS — The study of the economy-at-large including overall income, growth, inflation, and employment rates.

MANAGEMENT FEES — Fees charged to mutual fund investors covering the maintenance and marketing costs of that fund.

MARKETS — A meeting place for buyers and sellers to exchange goods and services.

MARKET CAPITALIZATION — The overall value of all shares of a publicly-traded company's stock.

MARKET ECONOMY — An economic system where people own and operate businesses.

MARKET RETURNS — The increase or decrease of one's investment portfolio.

MARKET VOLATILITY — Fluctuations in the price and value of securities that result in gains and losses of capital.

MATCHING (CONTRIBUTION) — The dollar for dollar amount an employer will contribute to one's retirement plan when the employee contributes.

MEDIUM-TERM GOAL — A goal that will take one to five years to achieve.

MICROECONOMICS — The study of small components of a regional, national, or global economy. Components may include individuals, households, or businesses.

MINIMUM MONTHLY PAYMENT — The smallest amount of money accepted by the creditor each billing cycle to keep an account in good standing.

MIRROR TRADING —An automated trading platform for investors where a knowledgeable third party executes a trade in his or her account, and the same trade is mechanically placed on behalf of the investor. Investors should recognize that unscrupulous traders may use trendy platforms such as mirror trading as a way to launch schemes.

MISCELLANEOUS FEES (CREDIT ACCOUNTS) — The additional fees charged a borrower for use of credit including late fees, annual fees, over-the-limit fees, bounced check fees, etc.

MONETARY POLICY — The national policy set forth by the Federal Reserve System that affects all aspects of money, including the availability of money and the cost of credit.

MONEY MARKET MUTUAL FUND — A low risk mutual fund that invests in stable, short-term securities.

MUTUAL FUND — An investment tool that pools the money of shareholders in a diversified portfolio of securities.

NATIONAL ASSOCIATION OF SECURITIES DEALERS AUTOMATED QUOTATION (NASDAQ) — A computerized system that allows brokers to trade stocks electronically.

NATIONAL CREDIT UNION ASSOCIATION (NCUA) — A federal government agency created to guarantee credit union deposits.

NEED — Those things that are essential to human existence.

NET ASSET VALUE (NAV) — The current market value of a mutual fund's portfolio divided by the number of shares equals NAV/share. (The NAV is calculated at least one time every business day.)

NET WORTH — A person's financial condition at a given time. Assets (things owned) minus liabilities (things owed) equals net worth.

NEW YORK STOCK EXCHANGE (NYSE) — The oldest stock market in the United States overseeing daily trading in more than 2,000 stocks involving millions of shares.

NO-LOAD FUND (NL) — A mutual fund purchased directly from the fund with no sales charge.

NORTH AMERICAN SECURITIES ADMINISTRATORS ASSOCIATION (NASAA) — A trade group for state securities agencies that regulate financial offerings in each state and protect consumers from investment fraud.

ONLINE FRAUD — The use of Internet services or social media to defraud victims or to otherwise take advantage of them.

OPPORTUNITY COST — The next most valued alternatives that will be given up as a result of choosing another option.

PAY YOURSELF FIRST — A practice that establishes an amount to be saved each payday and put into savings or invested first before other spending takes place.

PENNY STOCK — A stock that trades at a relatively low price and market capitalization and are generally considered to be highly speculative and high risk.

PHISHING — A scam by which an e-mail user is duped into revealing personal or confidential information which the scammer can use illicitly

PONZI SCHEME — An illegal investment scam named for its inventor, Charles Ponzi, that uses new investor money to pay previous investors.

PORTFOLIO — A collection of investments held by an individual or organization.

PRECIOUS METALS — Gold bullion, silver and other minerals of value that are treated as investments.

PREFERRED STOCK — A more expensive share of a company that provides dividends to its shareholders and provides rights to the company's assets before holders of common stock.

PRICE — The monetary value at which a good or service is bought or sold.

PRINCIPAL — The amount of your initial investment or funds put into savings.

PRIVATE COMPANY — A company owned exclusively by an individual, family, or small group of people.

PROSPECTUS — A legal document issued by public companies and mutual funds detailing information relevant to investment decisions.

PUBLIC COMPANY — A corporation that sells shares of ownership to the general public.

PYRAMID SCHEME — An illegal investment scam whereby investors are asked to recruit others with promises of high returns and a share of the investments made by the people they recruit.

RAINY DAY FUND — Liquid assets that are saved and readily available in the event of emergency.

REAL ESTATE — Physical property owned for the purpose of investment, including rental property, personal property, or business property.

RETURN — The total increase or decrease of an investment; includes income plus capital gains or minus capital losses.

RISK (INVESTMENT) — The possibility that an investment will lose value.

RISK/RETURN RELATIONSHIP — The assumption that greater uncertainty equates to higher gain and that less uncertainty equates to lower gain on an investment.

RISK TOLERANCE — The degree of risk that an individual can afford to take or is comfortable taking when investing.

ROLE OF GOVERNMENT — The parameters established for the government to take action and intervene for the common good of its citizens.

RULE OF 72 — A mathematical process by which individuals can determine the number of years it will take to double their money if the interest rate is known.

SAVINGS — Income withheld from current spending for future use.

SAVINGS ACCOUNT — An account used to set aside income for easy withdrawal and to accrue interest.

SCARCITY, SCARCE — A condition in which resources are insufficient to fulfill consumer wants.

SECURITIES AND EXCHANGE COMMISSION (SEC) — An independent federal agency that governs the securities industry and enforces securities laws.

SECURITY — A tradable financial asset of any kind.

SHORT-TERM GOAL — A goal that will be achieved within one year.

SIMPLE INTEREST — A percentage of the principal amount only.

SECURITIES INVESTOR PROTECTION CORPORATION (SIPC) – A Congressionally-charted organization that acts as trustee or works with an independent court-appointed trustee to recover assets of customers if a brokerage firm goes out of business.

STATE SECURITIES REGULATOR — A government officer who handles the licensing, registration, and regulation of stockbrokers and financial advisors that do business in a specified state.

STOCK — An investment that represents shares of ownership in a company.

STOCKBROKER — A financial representative who handles the buying and selling of securities.

S**TOCK MARKET** — The market in which sellers of stock trade shares with buyers of stock.

STOCK SWINDLES — When a scammer hypes a small, little-known company in order to drive up market value, and then dump their stock onto the market and make off with major profits

STOCK SYMBOL — A group of letters standing for a particular stock, mutual fund, or other security. Also called a ticker symbol or stock abbreviation.

SUPPLY — The amount of products or services that a producer is able to make available to consumers at a given time.

SWINDLER — An individual who engages in fraudulent practices for illegal gain.

TAX-DEFERRED — Deposits made with pre-tax dollars to accounts that are taxed upon withdrawal.

TAX-EXEMPT — Status of being completely or partially immune from taxes.

TELEMARKETING FRAUD — Fraud conducted by telephone. Sales calls from unknown persons should always be thoroughly researched before investing.

TIME VALUE OF MONEY — The concept that an initial investment made early in life will accrue more interest than a series of deposits made later in life (due to compounding, time, rate of interest and amount invested).

TRADE-OFF — Something that is lost by choosing one option over another.

TRANSACTION COSTS (INVESTMENT) — The fee charged by a broker to buy or sell investment products.

VALUES — Concepts important to an individual that provide a foundation upon which decisions are made.

WANTS — Things that are not necessary for sustaining life but that make one's life more comfortable.