UNIT THREE
Investing: Making Money Work for You

One way students can get even more out of money is to save or invest it. Here, we make the distinction that saving is usually for short-term goals and investing is generally for long-term goals. The focus of this unit is to help students do both to achieve their financial goals faster and more effectively.

In high school, students often think they don’t have enough money to invest. While their incomes may be limited at that time, they do have a greater amount of one resource now than they will have at any other time in their lives—time! As you may know, even small amounts of money can grow substantially over time.
These are some of the basic principles of investing that students should understand by the end of the unit. Collectively, these principles are known as the time value of money. For students, the amount saved is not nearly as important as simply developing the saving habit by “paying yourself first,” a theme introduced in an earlier unit.

Before investing, students must understand the concept of risk and reward. While many adults think of risk in terms of losing money, there are several other types of risk—some type of risk affects all types of investments. Even a savings account, one of the safest investment vehicles around, is subject to the risk that earnings on the account won’t keep pace with inflation, thereby reducing investors’ future purchasing power. So it’s important for students to think about their own tolerance for risk and to research potential investments. The rules for good decision making discussed in Unit 1 still apply.

When students are ready to invest, one of the first decisions they must make is whether to invest for income or growth. Choosing income investments such as savings accounts, U.S. savings bonds, certificates of deposit, and money market accounts in effect makes students lenders. By depositing their money into one of these accounts, students are essentially lending their bank or credit union their money in exchange for earning interest.

Choosing growth investments, such as stocks or real estate, in effect makes students owners. With stocks, they would actually own a share of (or equity in) a company, which is why stocks are also sometimes referred to as equities. By owning part of a company, however, students may become directly impacted by the ups and downs of the company’s performance.

Historically, over long periods of time, growth investments have outperformed income investments. Of course, the higher potential return is tied to an increased risk of losing money, particularly in the short term.

There are ways to manage risk, however. Diversifying investments in a portfolio spreads the risk around, so the investor is less affected by a drop in the value of any one investment. Students can relate to this principle when they apply to several jobs or several colleges—they know that getting rejected by one employer or college is easier after applying to several. They also know they still have other possibilities!
Dollar cost averaging is another method that can reduce the risk of getting into the market at the “wrong” time. While everyone knows it’s best to buy low and sell high, even experts find this very difficult to actually do. Instead, systematically investing the same amount in the same investment at regular intervals will reduce the impact of price swings. Sometimes the amount will buy more shares; sometimes it will buy fewer shares. But in the end, the average price paid for each share will be a reasonable one.

Overall, saving for short-term goals and investing for intermediate- and long-term ones can be powerful forces in helping students accumulate money for the things they really value. Yes, there are risks involved, but these can be managed in a variety of ways without significantly sacrificing potential return. Of course, like the other types of plans we’ve covered, students will need to update their investment plan as their lives evolve.
Teaching Plan
Unit 3 Investing: Making Money Work for You

Total Time — 125 Minutes

Target Competency
Propose a personal saving and investing plan.

Learning Objectives
A. Differentiate between saving and investing
B. Assess the time value of money
C. Compare investment options
D. Compare the relationship between risks and returns related to savings and investments
E. Recommend ways to integrate savings and investing strategies into financial planning

Teaching Plan Activities

<table>
<thead>
<tr>
<th>Minutes</th>
<th>Teaching Activities</th>
<th>Student Learning/Assessment Activities</th>
</tr>
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<tbody>
<tr>
<td>5</td>
<td>Preview Unit 3 with the students by reading page 27. Point out that they will use the information learned and practiced in this unit to outline their own personal investing plan using the guidelines stated on page 40. [Optional: Copy and distribute the Unit 3 Overview (page 63) to preview what the students will learn and what assignments will be submitted throughout the unit.]</td>
<td>Read page 27 to preview what you will learn about and do in this unit.</td>
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<td>5</td>
<td>Guide students to work with partners to complete the What Do You Think? activity on page 28. Observe students during the exercise to become familiar with student perceptions. At the end of this unit, revisit the questions so students can make any changes in their responses.</td>
<td>Work with a partner to respond to the What Do You Think? activity on page 28.</td>
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<tr>
<td>10</td>
<td>Show PowerPoint Visual 3-A, Savings and Investments, to illustrate the similarities and differences between saving and investing.</td>
<td>View a presentation about the differences between saving and investing.</td>
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<td>10</td>
<td>Arrange students in pairs to complete Exercise 3A, Ways to Save and Invest, on page 28. Ask: Which strategies do you use now to save or invest? Which do you think is a better use of your money—saving or investing? Why?</td>
<td>Complete Exercise 3A, Ways to Save and Invest, on page 28. Which strategies do you use now to save or invest? Which do you think is a better use of your money—saving or investing? Why?</td>
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<td>5</td>
<td>Direct student attention to the Did You Know? section on page 29. Guide students to study Figure 3-1: The Advantage of Starting Early.</td>
<td>Think about who would have more money: the person who invests $2,000 for 10 years starting now, or the person who starts investing $2,000 a year 10 years from now at the same rate? Study the data on page 29 to find out the answer.</td>
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<td>Direct students to read pages 30–32 prior to class to review how to calculate interest.</td>
<td>Read pages 30–32 to see examples of how simple interest and compounded interest are calculated.</td>
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<td>Minutes</td>
<td>Teaching Activities</td>
<td>Student Learning/Assessment Activities</td>
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<td>20</td>
<td>Show the following PowerPoint visuals to demonstrate the impact of interest: 3-B, Investing Weekly at 5% Interest; 3-C, Investing Annually to Achieve a Goal; 3-D, To Have $50,000 at 8% Interest; 3-E, Investing a $10,000 Lump Sum; 3-F, Investing $1,000 Annually. Guide students to complete Exercise 3B, The Power of Compounding, on page 30. (Show PowerPoint Visual 3-G, for answers to Exercise 3B.)</td>
<td>View a presentation about the time value of money. Complete Exercise 3B, The Power of Compounding, on page 30 to calculate the value of interest earned on interest.</td>
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<td>0</td>
<td>Distribute and assign Assignment 3-1, Time Value of Money, to be completed in class or as homework by a due date. Recommend that students use a time value of money calculator (handheld or online).</td>
<td>Complete Assignment 3-1, Time Value of Money, to calculate the value of investments for several situations.</td>
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<td>10</td>
<td>Show the following PowerPoint visuals to explain the Rule of 72: 3-H, Rule of 72, and 3-I, Rule of 72: $10,000 Invested. Direct students to apply the Rule of 72 as they work with a partner to complete Exercise 3C, The Impact of Higher Returns, on page 32.</td>
<td>View a presentation to learn about the Rule of 72. Practice applying the rule as you complete Exercise 3C, The Impact of Higher Returns, on page 32. Check your work with a partner. What did you find interesting about the problem?</td>
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<td>10</td>
<td>Show the following PowerPoint visuals to discuss the potential risks and rewards of various types of investments: 3-J, Financial Planning Pyramid; 3-K, The Impact of Higher Returns on Savings and Investments. Guide students to study Figure 3-2: Financial Planning Pyramid, on page 33. Point out the relationship between risk and reward.</td>
<td>Study Figure 3-2: Financial Planning Pyramid, on page 33. In two sentences and without notes, tell a classmate about the relationship between risk and reward related to investing.</td>
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<td>10</td>
<td>Direct students to complete Exercise 3D, Risk versus Reward, on page 34. Arrange for students to discuss their responses with a partner.</td>
<td>Complete Exercise 3D, Risk versus Reward, on page 34. Which portfolio most matches your own current portfolio?</td>
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<td>15</td>
<td>Arrange students in pairs to examine the various types of income and growth investments described on pages 35–37. Direct students to generate a list of common features of income investments and a list of common features of growth investments.</td>
<td>Study pages 35–37 to learn about various types of income and growth investments. What do all income investments have in common? What do all growth investments have in common?</td>
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<td>Optional: Distribute materials for students to complete the Dollars and Sense activity. (See Supplementary Materials—SM3-1.)</td>
<td>Optional: Complete the Dollars and Sense activity.</td>
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<td>Distribute and assign Assignment 3-2, Which Is the Best Deal? Encourage students to examine income investments that best meet their current situations.</td>
<td>Complete Assignment 3-2, Which Is the Best Deal?, to identify potential investment options for your current situation.</td>
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<td>10</td>
<td>Guide students to fill in a Venn diagram to compare saving and investing as they complete Exercise 3E, Savings or Investment?, on page 37.</td>
<td>Complete Exercise 3E, Savings or Investment?, on page 37 to compare the similarities and differences between saving and investing.</td>
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<tr>
<td>Minutes</td>
<td>Teaching Activities</td>
<td>Student Learning/Assessment Activities</td>
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<td>Optional: Direct students to create informational brochures or posters to inform others about a specific investment.</td>
<td>Optional: Create an informational brochure or poster to inform classmates or family members about an investment.</td>
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<td>Optional: If available, provide students access to financial management/portfolio software or Web site.</td>
<td>Optional: Tour or use software or a Web site designed for organizing an investment portfolio.</td>
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<td>Distribute and assign Assignment 3-3, My Investing Options. Encourage students to select investments that align with their financial goals and apply to their current situations.</td>
<td>Complete Assignment 3-3, My Investing Options, to compare features of income and growth investments that interest you.</td>
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<td>Distribute and assign Assignment 3-4, My Risks and Rewards, to encourage students to consider the risks and rewards of their preferred investments.</td>
<td>Complete Assignment 3-4, My Risks and Rewards, to examine the likelihood of risking loss or reaping rewards on investments that interest you.</td>
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<td>10</td>
<td>Direct students to read pages 38–39 prior to class to become familiar with investment strategies. Show PowerPoint Visual 3-L, Dollar Cost Averaging, to illustrate the value of regularly investing versus randomly investing.</td>
<td>Read pages 38–39 to learn about strategies to help your investments grow.</td>
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<td>Optional: Encourage students to talk to adults about what was learned from investment experiences. Challenge students to create a “Top 5 Things to Do (or Avoid) When Investing.”</td>
<td>Optional: Interview adults about their investment experiences, and share what you learned.</td>
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<td>Distribute and assign Assessment 3-1, My Investing Plan, to be completed independently by a due date. Preview the directions and scoring guide (Appendix A) to help the students plan their work. Use this assessment to assess the students’ ability to perform the unit target competency. As an alternative assessment, an objective test, Assessment 3-2, Evaluation, is available on the Instructor’s Manual CD and in the Supplementary Materials (see SM3-3).</td>
<td>Complete Assessment 3-1, My Investing Plan.</td>
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<td>Optional: Arrange for students to work independently or in pairs to complete the online Unit 3 simulation on the HSFP Web site.</td>
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<td>Copy the Unit 3 newsletter article to distribute to parents or via a school newsletter (available on the Instructor’s Manual CD).</td>
<td>[Taking It Home] Read a newsletter article to learn about time value of money and/or the risks and rewards of investing.</td>
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<td>0</td>
<td>Encourage students to ask about strategies used at home to manage investments. Encourage students to ask adults about lessons learned related to saving and investing.</td>
<td>[Taking It Home] Ask about lessons learned related to saving and investing.</td>
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Unit 3 Investing: Making Money Work for You

Unit Overview

You’re parents were right: money doesn’t grow on trees. It actually grows on other money—which is where we get the old saying, “It takes money to make money.” Money does have an amazing ability to make more money. The good news is it doesn’t take much money to take advantage of this.

You already have several powerful tools for reaching your financial goals, including a financial plan to help you map out the route and a spending plan to help you get there. In this unit, you will be introduced to two more powerful tools—saving and investing—which will really put your money to work for you.

How can you use this in your life?
You will use what you have learned in this unit to propose your own personal investment plan.

In the process of creating your financial plan, you will . . .
... differentiate between saving and investing
... assess the time value of money
... compare investment options
... compare the relationship between risks and returns related to savings and investments
... recommend ways to integrate savings and investing strategies into financial planning

You will know you have succeeded when:
✓ You use the decision-making process to select at least two investing products for your investment plan
✓ You outline your investing strategy (amount to invest, how often, and when to invest)
✓ You predict the potential value of your investments three years from now
✓ You classify your investment choices as income investment or growth investment
✓ You describe the potential risks and rewards of the chosen investments
✓ You balance the diversity of your investments
✓ You explain how your investing plan aligns with your intermediate- and long-term financial goals

Check your progress as you complete the unit assignments and assessments:

<table>
<thead>
<tr>
<th>Due Date</th>
<th>Description</th>
<th>Points</th>
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<tbody>
<tr>
<td></td>
<td>Assignment 3-1  Time Value of Money</td>
<td>____/10</td>
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<td></td>
<td>Assignment 3-2  Which Is the Best Deal?</td>
<td>____/10</td>
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<td>Assignment 3-3  My Investing Options</td>
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<td></td>
<td>Assignment 3-4  My Risks and Rewards</td>
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<td></td>
<td>Assessment 3-1  My Investing Plan</td>
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<td>Assessment 3-2  Evaluation</td>
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</table>
UNIT THREE
Investing: Making Money Work for You

Your parents were right: money doesn’t grow on trees. It actually grows on other money—which is where we get the old saying, “It takes money to make money.” Money does have an amazing ability to make more money. The good news is it doesn’t take much money to make this happen.

You already have several powerful tools for reaching your financial goals, including a financial plan to help you map out the route and a spending plan to help you get there. In this unit, you will be introduced to two more powerful tools—saving and investing—which will really put your money to work for you.
What Do You Think?

Answer true or false to the following statements:

- Adam started saving $50 per month when he turned 18, while Beth started saving $100 per month when she turned 24. They both earn 6% on their money. Beth will have more money by the time they both turn 30.

- A dollar today is worth less than a dollar in the future.

- The higher the interest rate, the less time it takes to reach a savings goal.

- The smaller the down payment someone makes on a car, the less interest the owner pays for a car loan.

Saving ≠ Investing

In Unit 2, you learned how important it is to pay yourself first. But what should you do with that money? You could put it in your dresser or under your mattress. While you may always know where it is, it won’t be doing anything except gathering dust. Instead, you should consider saving or even investing.

Saving is what people usually do to meet short-term goals. Your money is very safe in a savings account, and it is usually earning a small amount of interest. It’s also easy for you to get to your money when you need it—just go to your bank and make a withdrawal.

Investing means you’re setting your money aside for longer-term goals. There’s no guarantee that the money you invest will grow. In fact, it’s normal for investments to rise and fall in value over time. But in the long run, investments can earn a lot more than you can usually make in a savings account.

Why are saving and investing so important to your financial plan? For one, saving or investing money for your financial goals makes you less tempted to spend it. It’s in a totally different account from the one you pay your everyday expenses. And it’s not just sitting there burning a hole in your pocket.

But the best reason for investing is that your money is actually making money for you. Any interest or investment gains you earn get you that much closer to your financial goals. And you didn’t have to do anything for it! But you’ll learn more about this amazing money principle in the next section.

Exercise 3A: Ways to Save and Invest

Brainstorm at least three ways to save money (set aside money to use later) and at least three ways people invest money for future income or profit.

<table>
<thead>
<tr>
<th>Save</th>
<th>Invest</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stash money in your dresser</td>
<td>Buy shares of a stock</td>
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</tbody>
</table>

ANSWER KEY:

1. False. Although they both invested $7,200 over the years, the power of compound interest was working longer for Adam, so he will have more money when they turn 30.

2. False. A dollar is worth more today than a dollar in the future both because of inflation.

3. True. The higher the interest rate, the faster the money will grow, and the sooner you will reach a savings goal.

4. False. The higher the down payment, the less interest you will pay over the life of the loan because the amount you need to pay interest on is smaller.
**Did You Know?**

There's a huge advantage to investing early. Let's say you start investing $2,000 every year when you're 18. You put it into an account that grows by 7% each year, and continue to invest the same amount for 10 years. Then you stop and just let that money sit for the next 38 years, where it continues to grow at 7% a year, until you're 65 years old.

Now say your sister decides not to invest until she turns 31. Then she puts $2,000 a year into an account that also earns 7% a year—and does it for the next 35 years, until she turns 65. Who will have more money?

You will! About $85,000 more, in fact. After investing only $20,000, your account will be worth $361,418. But even though she has invested $70,000, your sister will have only $276,474. That's because you had the power of time on your side. Figure 3-1 demonstrates this point.

If you stick with investing $2,000 per year from age 18 through age 65, you could end up with more than $706,000!

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**Procedure**

- Direct student attention to the Did You Know? section on page 29.
- Guide students to study Figure 3-1: The Advantage of Starting Early.
The Time Value of Money

Is a dollar always worth a dollar? It may seem like a silly question, but a dollar is not always worth a dollar. Sometimes it’s worth more, sometimes less. How can that be? The value of a dollar changes dramatically depending on when you get it and what you do with it. So time is a critical variable in the exact value of a dollar. Time value of money refers to the relationship among time, money, and rate of interest.

Say you have $100 today. If you keep it in your dresser drawer for a year, you will still have $100 in a year. But in a year, $100 may buy less than it does now because of inflation, which is a rise in the cost of goods and services over time. Inflation decreases the spending power of each dollar you have. (Do you remember what a candy bar cost when you were six years old?)

But say you put that $100 into a savings account that pays 3 percent interest a year. Using the following formula for simple interest, a year later you will have $103 because of earned interest:

\[ \text{Interest} = \text{Principal} \times \text{interest rate} \times \text{time} \]

\[ $3 = \$100 \times .03 \times 1 \text{ year} \]

Exercise 3B: The Power of Compounding

Let’s assume you have $10 you’re ready to invest. Using the two interest rates in the table below, fill in the compound value of $10 for each of the time periods listed. For example, $10 growing at 4% is worth $10.40 after one year. For the second year, multiply $10.40 by 4% and add the result to $10.40, for a total of $10.82.

<table>
<thead>
<tr>
<th>Interest Rate</th>
<th>1 Year</th>
<th>2 Years</th>
<th>4 Years</th>
<th>6 Years</th>
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</thead>
<tbody>
<tr>
<td>4%</td>
<td>$10.40</td>
<td>$10.82</td>
<td>$11.25</td>
<td>$11.70</td>
</tr>
<tr>
<td>8%</td>
<td>$10.80</td>
<td>$11.66</td>
<td>$12.60</td>
<td>$13.60</td>
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</table>

Earned interest is the payment you receive for allowing a financial institution or corporation to use your money. You may not realize it, but your bank doesn’t keep every dollar you deposit on hand. It may lend some of that money to other bank customers or deposit it with a government bank for safekeeping. So the bank compensates you for that by paying you interest on your savings account.

Both of these examples demonstrate the time value of money and show how much its three elements—time, money, and rate of interest—can help you reach your financial goals. In short:

1. The more money you have to save or invest, the more money you are likely to earn.
2. The higher the rate of interest you earn, the more money you are likely to have.
3. The sooner you invest your money, the more time it has to make new money, making it likely that you could earn much more as a result.

Cool, huh? So regardless of how much or how little you have to save and invest, time is truly on your side, helping you make more money!

Now let’s see how well you understand the compounding concept, as you complete Exercise 3B.

ANSWER KEY:
Show Me the Money!

The reason the time value of money concept works is because of compounding. Compounding or compound interest is the idea of earning interest on interest. Think of it as super-sizing your account, because it’s one of the most powerful principles in personal finance. It can make a big difference in whether and when you achieve your financial goals.

Let’s say you put $100 into an investment that earns 10 percent a year—$100 x 10% = $10. If you add that $10 to the $100 you started with, you now have $110 in your account at the end of year one. But in year two, you will earn 10 percent on the entire $110 (not just the original $100). So you’ll actually earn $11 during year two, bringing your balance up to $121 at the end of the year. And like the Energizer Bunny®, this will just keep going and going . . .

If you want to see how much you’ll have after five years, you can use this formula to calculate the compound interest:

\[ A = P (1 + i)^n \]

A is the amount in the account, P is the principal (which is the original amount invested), the interest rate (i) is expressed as a decimal, and n is the number of years compounded.

And now you see that after five years, you’ll have $161.05—and you only put in the $100!

Albert Einstein was so impressed with this concept that he called compounding “the most powerful force in the universe.” But you don’t have to be a genius to take advantage of it. You don’t even have to be rich to take advantage of it. The most important thing is to get into the saving and investing habit NOW. Your money will start working for you right away, increasing the chances that you’ll have the money for your financial goals when you need it.

The Price of Procrastination

You know that the more time you have to invest, the more money you are likely to end up having. But the flip side of that is true too. By waiting to invest, you’re paying an opportunity cost.

Let’s talk about the cost of procrastinating. It’s easy to say that you don’t have enough money to get started saving and investing now—“I’d rather wait until I have more money.” But that decision probably costs you more than you think because the power of compounding works both ways. It costs you because waiting means giving up earning compound interest from even just a small amount of money.

Think about it—how much less money would you have if you waited 10 years to invest $100 per month at 8 percent, versus starting to do it right now? [Hint: Calculate what you would have in 10 years versus the $0 you’d have if you wait.]

And remember, while saving for your goals involves delayed gratification, procrastinating in saving for your goals is really delayed gratification! At least, when you’re using a spending plan and saving, you have an idea of when you can expect to achieve your goal.

For more program resources, visit hsfpp.nefe.org.
The Rule of 72

You now know that the concept of compounding means that your money is making more money even while you sleep. One way to see how powerful this can be is called the **Rule of 72**.

Mathematicians say that you can see how long it will take you to double your money simply by dividing 72 by the interest rate. So let’s say your grandparents give you $200 for your birthday and you want to use it to start saving for your own car. If you put the money into an account that earns 6 percent interest a year, how long will it take to grow to $400?

\[ 72 \div 6\% \text{ interest} = 12 \text{ years} \]

So in 12 years, your money will have doubled to $400. But what if your dad tells you about an account where you could earn 9 percent a year on your money?

\[ 72 \div 9\% \text{ interest} = 8 \text{ years} \]

Now you will have that $400 in only eight years. By earning just a little bit more interest, you reduce the time to double your money by four years. And this doesn’t include any additional money that you may put into your account over time, which would only speed up the process.

But what if eight years seems too long to wait and you want that $400 in four years instead? The Rule of 72 can also tell you the interest rate you need to earn to double your money in a certain amount of time. So for four years it would be:

\[ 72 \div 4 \text{ years} = 18\% \text{ interest} \]

With only four years to invest, your money will double if you can find an investment that earns 18 percent. Of course, that may be difficult to do as the stock market typically averages only about 10 percent a year over the long term. But you can certainly see how even a small difference in the interest rate you earn can make a big difference in how quickly your money compounds—earning you more money—over time.

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**Exercise 3C:**

**The Impact of Higher Returns**

Use the Rule of 72 to calculate the answers to the following questions. Show your calculation and answer for each question in the space provided.

1. What interest rate would be necessary to double a $100 investment in 24 years?
2. How many years would it take to double $100 if it earned interest at a rate of 8% per year?
3. What interest rate would be necessary to double a $100 investment in 11 years?
4. How many years would it take to double $100 if it earned 7.75% interest per year?

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**ANSWER KEY:**

1. 3% \((72 / 24 = 3)\)
2. 9 Years \((72 / 8 = 9)\)
3. 6.55% \((72 / 11 = 6.545)\)
4. 9.29 Years \((72 / 7.75 = 9.29)\)
Risky Business

When many people hear the word “investment,” they think of the stock market, the place where stocks are bought and sold, and they think about the risk of losing all their money. But risk is simply the uncertainty that the anticipated return will be achieved. All investments involve some degree of risk—even relatively safe investments like an insured savings account. That’s because the interest earned on the savings account may not keep pace with inflation, decreasing an investor’s future purchasing power. But a savvy investor understands and takes steps to manage his or her risk.

The risk/reward trade-off is the principle that an investment must offer higher potential returns to compensate for the increased potential unpredictability. So the greater the risk you take with your money, the higher the potential returns on your investments. The lower the amount of risk you take, the lower the potential returns will likely be. Figure 3-2 demonstrates this for some common types of investments.

![Financial Planning Pyramid](image.png)

**Figure 3-2:** Financial Planning Pyramid

- **Highest Risk**
  - Commodities
  - Penny Stock
  - Speculative Stocks/Bonds/Mutual Funds
  - Blue-Chip Common Stock
  - Real Estate
  - Growth Mutual Funds
  - Balanced Mutual Funds
  - High-Grade Preferred Stock
  - High-Grade Convertible Bonds
  - Money Market Accounts or Mutual Funds
  - High-Grade Municipal Bonds or Mutual Funds
  - High-Grade Corporate Bonds or Mutual Funds
  - Insured Savings/Checking Accounts
  - U.S. Savings Bonds
  - Certificates of Deposit
  - Treasury Issues

- **Lowest Risk**

For more program resources, visit hsfpp.nefe.org.
The risk/reward trade-off is key to choosing investments that are right for you, because most people have different ideas about how much risk they should take with their money. Some are conservative and want to keep it someplace safe, like a savings account. Others are more aggressive and are willing to invest it someplace riskier, like the stock market. In the end, you have to decide how comfortable you would be with an investment that could frequently go up and down in price.

Of course, the reward for taking on risk is your return on investment. Return can be made up of income such as interest or dividends (which are a share of the profits you receive as a stockholder). Return can also come about from growth stock prices, called capital gains. If an investor buys a stock and sells it later at a higher price, the difference between the purchase price and the selling price is called a capital gain. So if you bought Stock Z for $10 per share in 2000, then sold it for $25 per share in 2005, your profit, or capital gain, is $15 per share. If an investor ends up selling a stock at a lower price, the difference is called a capital loss.

When talking about return, people usually cite an investment’s rate of return or rate of interest, which is simply the annual percentage return on an investment. In short, it tells you how fast your money is growing.

### An Array of Investment Options

There are many ways to put your money to work for you. We’re going to talk about an array of different investment options, all of which work better in certain situations than others.

Generally, people choose to invest for one of two reasons: income or growth. Income means they get paid—in cash—for owning the account or investment. Growth means they buy and hold an investment with the hope that it will increase in price, over time.

### Exercise 3D: Risk versus Reward

Two people have different investment strategies. Read about their situations and then follow directions to compare their investment portfolios.

#### Carrie Montgomery

Carrie, age 27 and single, has an emergency fund in an insured savings account. Her other investments include a balanced mutual fund, a growth mutual fund, and collectibles in the form of baseball cards. Sixty percent of the money in these investments is in a growth mutual fund, and 20 percent of the money is in each of the other two investments.

#### Darren Miller

Darren is 22 and also single. He has an adequate emergency fund in U.S. savings bonds. The remainder of his investment program includes equal amounts of money invested in a money market mutual fund, high-grade preferred stock, and blue-chip common stock.

<table>
<thead>
<tr>
<th>Elements to Compare</th>
<th>Carrie</th>
<th>Darren</th>
</tr>
</thead>
<tbody>
<tr>
<td>Who has a lower-risk investment program?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Who has the potential for higher earnings?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>What is each person’s highest-risk investment?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>What is each person’s lowest-risk investment?</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Procedure

Direct students to complete Exercise 3D, Risk versus Reward, on page 34. Arrange for students to discuss their responses with a partner.
If you're only looking to set money aside for a few months or even a few years, income investments tend to be the better fit because they are less risky than growth investments. As you know, that means their value tends to fluctuate less, providing steadier returns over time. But over longer periods of time, such as several years or even decades, growth investments earn higher returns than income investments. So choosing between income and growth investments essentially comes down to a trade-off between lower, steadier returns and more volatile, yet higher long-term returns.

Part of the difference in risk is due to the different roles an investor plays in each type of investment. When you choose an income investment, you are essentially lending your money to a bank, a business, or the government. In return, you get interest as your income. But when you choose a growth investment, you are essentially buying part of a company, hoping that it goes up in value. Because it's riskier to own part of a company than it is to lend money to it, owners expect to get paid more. Of course, there's no guarantee they will.

Let's look briefly at some specific examples. Within each broad category, we'll list typical savings or investment choices, ranging from low risk/low return to higher risk/potentially higher return.

### Income Investments

- **Savings Accounts.** Often the first banking product people use, savings accounts earn a small amount of interest. Because the federal government guarantees the safety of these accounts, they're considered to be very low risk. Therefore, they tend to pay low interest rates. But you also can take your money out at any time without penalty, so a savings account is a very liquid asset, meaning it can be easily converted to cash.

- **U.S. Savings Bonds.** The federal government pays interest to investors for loaning it money, just like banks and credit unions do. But bonds are different from savings accounts. A bond is a formal agreement where the borrower, in this case the federal government, can use your money for a set period of time and you, as the lender, will get paid a specific amount of interest in return. In this case, you're agreeing to loan the government your money for at least a year. But savings bonds are designed to be held for up to 30 years, so if you cash a bond in within five years of purchase, you'll pay a penalty—usually three months of lost interest. On the other hand, these bonds typically pay higher rates of interest than savings accounts.

You can buy government-issued U.S savings bonds from almost any financial institution or directly from the government. There are two main types. You can buy a paper Series EE savings bond for half of its face value—the minimum is $25 for a $50 savings bond. It is guaranteed to accrue enough interest to reach face value in 20 years. You can also buy online Series EE or Series I savings bonds at their face value and earn a fixed rate of interest.

- **Certificates of Deposit (CDs).** Banks and credit unions have their own versions of savings bonds, called certificates of deposit. When you buy a CD from one of these financial institutions, again, you are essentially loaning it money for a set period of time—such as three months, six months, one year, two years, etc.—and getting interest in return. The longer the term, the higher the rate of interest paid. CDs usually pay a slightly higher rate of interest than savings bonds. But like savings bonds, you will lose a few months of interest if you cash them in early.

- **Money Market Deposit Accounts.** Banks and credit unions also offer money market deposit accounts (MMDAs). These work like checking accounts, so you can take your money out whenever you want, usually without any penalty. However, the bank or credit union may limit the number of checks you can write per month. MMDAs pay a higher rate of interest than savings accounts—although usually lower than CDs—and they are insured by the federal government. However, they also usually require a higher minimum balance than savings accounts for the first deposit.

### Going Further

Distribute materials for students to complete the **Dollars and Sense** activity. (See Supplementary Materials—SM3-1.)

For more program resources, visit hsfpp.nefe.org.
Think About It:
What do all of these income investments have in common?

Money Market Mutual Funds. You should know there’s a similar option to MMDAs called a money market fund. Often offered by mutual fund companies (a type of investment company that invests shareholders’ money in a diversified group of securities of other companies) and brokerages, a money market fund is designed to be a stable way to save your money and earn potential income. While there is no guarantee that money market funds can do this, and they are not insured or guaranteed by the U.S. federal government, they are generally considered to be pretty safe investments. Money market funds tend to earn higher interest rates than MMDAs.

Corporate and Government Bonds. Among all the income investments, these bonds typically pay the highest interest rates. A bond’s potential return is usually referred to as its yield. U.S. government bonds, also known as Treasury bonds, tend to be safer than corporate bonds because they are backed by the “full faith and credit” of the U.S. government. But corporate bonds usually offer higher interest rates. The time periods for both types of bonds can range from 2 to 30 years. In general, the longer the time period, the higher the interest rate the bond earns.

With the exception of the savings bonds mentioned earlier, few bonds are sold for less than $1,000—and you may be required to buy more than one. This can make it an expensive investment for individual investors. The cheapest way to buy U.S. Treasury bonds is directly from the government. Investment brokers sell corporate bonds and usually charge a fee for the transaction.

Growth Investments
The following are some examples of growth investments:

Stocks. Having stock in a company means that you own part of that company. A company usually begins issuing shares of stock to raise money for reasons such as buying new equipment or hiring more employees. Investors who buy stock are called shareholders, who actually own shares of, or equity in, the company.

Stocks are generally riskier investments than income investments because you can potentially lose more money. But over longer periods of time, stocks tend to make more money than income investments. And while there’s no guarantee you’ll make money, stocks are generally liquid—you can usually sell stocks back at any time.

It’s still a secret to many, but more than 300 of America’s biggest companies sell stocks directly to investors, which is definitely the cheapest way to invest in stocks. Sometimes you need to own at least one share of stock to buy more directly from a company. Of course, you also can buy stocks through a low-cost online brokerage or mutual fund company. The most expensive option is investing through a financial advisor, but the advantage is he or she can also help choose the right stocks for you.
Mutual Funds. Many investors like the affordability and convenience of owning mutual funds instead of individual stocks and bonds. A mutual fund takes money from many investors and uses it to make growth or income investments based on a stated investment objective. Some funds are designed to produce income by investing in bonds, CDs, and other income-producing investments. Others, designed to produce growth, invest in stocks or real estate.

Mutual funds have several key benefits. First, they offer investors an affordable way to own shares of many stocks, which is less risky than owning just a few shares. If one stock does poorly, you won’t lose as much money as you would if that was the only stock you owned. Second, they are professionally managed by an investment expert, also known as a portfolio manager. The portfolio manager makes all buying and selling decisions for the fund—again more affordably than you would likely get on your own. Third, with more than 6,000 mutual funds to choose from, you can probably indulge any interest you have in a particular type of company or investment style.

Real Estate. Investors buy property, such as land or buildings, again hoping to generate a profit. If your parents own their home, they own real estate. But there are many other forms of real estate investments, such as malls, apartment complexes, undeveloped land, commercial buildings, and farmland. Real estate is considered less liquid than stocks because it’s more complicated to sell. You usually have to put the property on the market, wait for a buyer, negotiate a price, then sign a contract.

Collectibles. Collectibles are items that are relatively rare in number. Paintings, sculptures, and other works of art are all collectibles. So are baseball trading cards and antiques. Just as with stocks or real estate, collectors buy items they hope will increase in value over time. Investors in collectibles don’t make a profit (or loss) until they sell their items. Because there’s a much smaller market for collectibles, investors view them as very high in risk.

Think About It:
What do all of these growth investments have in common?

Exercise 3E: Savings or Investment?
Create a Venn diagram to illustrate what is common and what is unique about savings and investments.

Going Further
Direct students to create informational brochures or posters to inform others about a specific investment.

If available, provide students access to financial management/portfolio software or Web site.
Distribute and assign Assignment 3-3, My Investing Options. Encourage students to select investments that align with their financial goals and apply to their current situations.

Distribute and assign Assignment 3-4, My Risks and Rewards, to encourage students to consider the risks and rewards of their preferred investments.

Direct students to read pages 38–39 prior to class to become familiar with investment strategies. Show PowerPoint Visual 3-L, Dollar Cost Averaging, to illustrate the value of regularly investing versus randomly investing.

Many Baskets of Eggs
Did your parents ever tell you not to put all your eggs in one basket? If so, they were actually trying to tell you to diversify your options. Diversification is reducing investment risk by putting money in several different types of investments. By spreading your money around, you’re reducing the impact that a drop in any one investment’s value can have on your overall investment portfolio. A mutual fund is an example of an investment that uses diversification.

For instance, say you get $100 and decide to put $50 into both a money market account and a stock. Five years later, the stock company has collapsed from a scandal, and the stock you invested in is worthless. Yes, you’ve now lost $50. But you would have lost the entire $100 if you hadn’t split your investment between the money market account and the stock. That’s a simplified example of how diversification can help lower the risk of your investments.

Smart, Steady Eddie
Earlier you learned about the value of paying yourself first. You also learned that it doesn’t matter if you can only pay yourself a little at first because money can build up quickly thanks to the power of compounding and choosing the right investments. Right now you have one of the most powerful advantages in building wealth—you’re young, and time is definitely on your side.

Steady Eddie knows that one way to take advantage of time, even if you don’t have a lot of money to set aside yet, is called dollar cost averaging. Dollar cost averaging is the practice of investing a fixed amount in the same investment at regular intervals, regardless of what the market is doing. It’s another key investment principle to know because it eliminates having to worry about investing at the “right” or “wrong” time.

Dollar cost averaging even out the ups and downs of the market. As the price of the investment rises, you simply end up purchasing fewer shares and when the price falls, you end up purchasing more.

Going Further
Guide students to complete the Are You A Risk-Taker? activity. (See Supplementary Materials—SM3-2.)

Encourage students to talk to adults about what was learned from investment experiences. Challenge students to create a “Top 5 Things to Do (or Avoid) When Investing.”
Let's say Eddie decides to invest $50 into ABC Mutual Fund every month.

<table>
<thead>
<tr>
<th>Amount of Investment</th>
<th>Date of Investment</th>
<th>Cost Per Share</th>
<th>Number of Shares Bought</th>
</tr>
</thead>
<tbody>
<tr>
<td>$50</td>
<td>Jan. 5</td>
<td>$15.23</td>
<td>3.28</td>
</tr>
<tr>
<td>$50</td>
<td>Feb. 5</td>
<td>$16.70</td>
<td>2.99</td>
</tr>
<tr>
<td>$50</td>
<td>Mar. 5</td>
<td>$16.04</td>
<td>3.12</td>
</tr>
<tr>
<td>$50</td>
<td>Apr. 5</td>
<td>$14.63</td>
<td>3.42</td>
</tr>
<tr>
<td>$50</td>
<td>May 5</td>
<td>$13.11</td>
<td>3.81</td>
</tr>
<tr>
<td>$50</td>
<td>June 5</td>
<td>$12.84</td>
<td>3.89</td>
</tr>
<tr>
<td>$50</td>
<td>July 5</td>
<td>$10.79</td>
<td>4.63</td>
</tr>
<tr>
<td>$50</td>
<td>Aug. 5</td>
<td>$11.24</td>
<td>4.45</td>
</tr>
<tr>
<td>$50</td>
<td>Sept. 5</td>
<td>$11.97</td>
<td>4.18</td>
</tr>
<tr>
<td>$50</td>
<td>Oct. 5</td>
<td>$14.52</td>
<td>3.44</td>
</tr>
<tr>
<td>$50</td>
<td>Nov. 5</td>
<td>$16.87</td>
<td>2.96</td>
</tr>
<tr>
<td>$50</td>
<td>Dec. 5</td>
<td>$16.45</td>
<td>3.04</td>
</tr>
</tbody>
</table>

**Adding It Up**

In this unit, you learned that saving and investing are very important parts of your financial plan. You learned about a number of ways that you can put your money to work for you, with savings options for short-term goals and investments for long-term ones. You've learned about risk and strategies for managing it. And you've seen just how much compounding can help you reach your goals faster and more effectively—even if you're just building your wealth a little at a time.

Of course, money that you're investing is money that you're not able to spend right now. You have to choose to put it away for more important longer-term goals rather than using that money on things you want right now. But you certainly don't want to deprive yourself of an enjoyable life now for the sake of a potentially better one a long ways down the line. So it's important to find the right balance and to continue to tweak your financial, spending, and investment plans as your life changes.

As we said, dollar cost averaging also teaches you to save at regular intervals. What if Eddie had waited until December when he had all $600 saved and ready to invest at one time? For one, he would have only been able to buy 36.47 shares at that price. But he would have also missed out on reinvesting any of the gains of the shares and the power of compounding if he had been investing some money every month up until that point.

---

**Assessment 3-1: My Investing Plan**

Use what you’ve learned to propose your own saving and investing plan.

At the end of the year, Eddie would own 43.21 shares purchased at varying prices. As you can see, more shares were purchased when the mutual fund share price was low, and fewer shares were bought when the share price was high. And since he got 43.21 shares for $600 during the year, he paid only $13.89 per share.

But if you look only at the price per share he paid each month, you’ll see that the average monthly price was $14.20 a share. So by using dollar cost averaging, Eddie received a discount of about 31 cents on every share he purchased—or a discount of about 2 percent off the average monthly price. Not bad for just following a simple investing process.

So instead of worrying about trying to figure out the best time to buy shares, Eddie achieved a reasonable average cost per share. Plus, he also benefited from compounding as any gains those shares made could be automatically reinvested, increasing the value of his account.

As we said, dollar cost averaging also teaches you to save at regular intervals. What if Eddie had waited until December when he had all $600 saved and ready to invest at one time? For one, he would have only been able to buy 36.47 shares at that price. But he would have also missed out on reinvesting any of the gains of the shares and the power of compounding if he had been investing some money every month up until that point.

---

**Going Further**

Arrange for students to work independently or in pairs to complete the online Unit 3 simulation on the HSFPP Web site.
Two people have different investment strategies. Read about their situations and then follow directions to compare their investment portfolios.

Carrie Montgomery, age 27 and single, has an emergency fund in an insured savings account. Her other investments include a balanced mutual fund, a growth mutual fund, and collectibles in the form of baseball cards. Sixty percent of the money in these investments is in a growth mutual fund, and 20 percent of the money is in each of the other two investments.

Darren Miller is 22 and also single. He has an adequate emergency fund in U.S. savings bonds. The remainder of his investment program includes equal amounts of money invested in a money market mutual fund, high-grade preferred stock, and blue-chip common stock.

Directions:
Use the information provided and refer to the Financial Planning Pyramid to compare and contrast Carrie’s and Darren’s investments.

<table>
<thead>
<tr>
<th>Elements to Compare</th>
<th>Carrie</th>
<th>Darren</th>
</tr>
</thead>
<tbody>
<tr>
<td>Who has a lower-risk investment program?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Who has the potential for higher earnings?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>What is each person’s highest-risk investment?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>What is each person’s lowest-risk investment?</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
## Exercise 3D: Risk versus Reward
### Answer Key

<table>
<thead>
<tr>
<th>Elements to Compare</th>
<th>Carrie</th>
<th>Darren</th>
</tr>
</thead>
<tbody>
<tr>
<td>Who has a lower-risk investment program?</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Who has the potential for higher earnings?</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>What is each person’s highest-risk investment?</td>
<td>Baseball cards</td>
<td>Blue-chip common stock</td>
</tr>
<tr>
<td>What is each person’s lowest-risk investment?</td>
<td>Balanced mutual funds</td>
<td>Money market mutual fund</td>
</tr>
</tbody>
</table>

## Assignment 3-1: Time Value of Money
### Answer Key

**Directions to Evaluator:**
Recommended: Guide students to use a TVM calculator to calculate the Assignment 3-1 problems.

1. 5 years = $701  
   10 years = $984  
   20 years = $1,935

2. 5 years = $805  
   10 years = $1,297  
   20 years = $3,364

3. 41%

**Note:** The high rates of return in answers 3 and 4 are atypical and unrealistic to expect in the real world. If such high rates of return are realized from investments in the real world, they are typically short term and come with a high degree of risk. These scenarios and their answers are provided for purposes of illustration only.
Assignment 3-1: Time Value of Money

Solve problems to calculate the value of investments.

Directions:
Use a calculator to determine the value of the investments in the scenarios provided on page 31.

<table>
<thead>
<tr>
<th>Required Criteria</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. You use the simple interest formula to calculate the value of investments over time</td>
<td>complete, not complete</td>
</tr>
<tr>
<td>2. Your solutions are correct</td>
<td>complete, not complete</td>
</tr>
<tr>
<td>3. You label your solutions in correct units</td>
<td>complete, not complete</td>
</tr>
</tbody>
</table>

Feedback:

Score ______/10 Name ___________________________________________ Date ____________

For rating scale information, please turn to Appendix A: Rating Scales.
Assignment 3-2: Which Is the Best Deal?

Directions:
Use the decision-making process to select an income investment that suits your current financial needs. Check with at least three financial institutions to gather details about the type of investment selected. Choose the investment option that best meets your needs.

Explain how your choice matches your financial goals.

<table>
<thead>
<tr>
<th>Required Criteria</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. You show a comparison of three similar types of income investments from three different sources</td>
<td>complete not complete</td>
</tr>
<tr>
<td>2. You site the sources of your information</td>
<td>complete not complete</td>
</tr>
<tr>
<td>3. You show evidence of using the decision-making process to select an investment</td>
<td>complete not complete</td>
</tr>
<tr>
<td>4. You explain how your selection best meets your current financial needs</td>
<td>complete not complete</td>
</tr>
</tbody>
</table>

Feedback:

Score ______/10  Name ___________________________  Date __________

For rating scale information, please turn to Appendix A: Rating Scales.
Assignment 3-3: My Investing Options

Directions:
Gather information and provide details about at least three different types of income and/or growth investing options.

Use the decision-making process to choose the investment option(s) that best meet(s) your needs.

Explain how your choice matches your financial goals.

<table>
<thead>
<tr>
<th>Required Criteria</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. You show a comparison of three different types of investments (income and/or growth) from three different sources</td>
<td>complete not complete</td>
</tr>
<tr>
<td>2. You site the sources of your information</td>
<td>complete not complete</td>
</tr>
<tr>
<td>3. You show evidence of using the decision-making process to select an investment (or investments)</td>
<td>complete not complete</td>
</tr>
<tr>
<td>4. You explain how your selection best meets your current financial needs</td>
<td>complete not complete</td>
</tr>
</tbody>
</table>

Feedback:

Score _______/10  Name ___________________________________________  Date __________

For rating scale information, please turn to Appendix A: Rating Scales.
Assignment 3-4: My Risks and Rewards

Directions:
Compare the potential risks and rewards of the investments featured in your Assignment 3-3, My Investing Options. Predict the potential risks and rewards for each investment.

Write a paragraph to explain your willingness to pursue any of the investment options.

<table>
<thead>
<tr>
<th>Required Criteria</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. You describe the potential risk of each investment option</td>
<td>complete</td>
</tr>
<tr>
<td>2. You rank the investments by potential risk</td>
<td>complete</td>
</tr>
<tr>
<td>3. You describe the potential reward of each investment option</td>
<td>complete</td>
</tr>
<tr>
<td>4. You rank the investments by potential reward</td>
<td>complete</td>
</tr>
<tr>
<td>5. You provide a rationale for your willingness to pursue any of the investment options</td>
<td>complete</td>
</tr>
</tbody>
</table>

Feedback:

Score ______/10  Name ____________________________________________ Date ____________

For rating scale information, please turn to Appendix A: Rating Scales.
Assessment 3-1: My Investing Plan

Competency:
Propose a personal saving and investing plan.

Directions:
Using the decision-making model you learned about in Unit 1, outline a plan to use income and growth investments to help you meet your intermediate- and long-term financial goals.

Review your financial goals and preview the Required Criteria to guide you in developing an investment plan. The plan should be realistic for your current and near-future situation.

Include the following information in your plan:

☐ details of at least two investment strategies that will help you meet your intermediate- and long-term financial goals

☐ a summary of how your saving and investing plan will help you meet your financial goals

<table>
<thead>
<tr>
<th>Required Criteria</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. You use the decision-making process to select at least two investing products for your investment plan</td>
<td>complete not complete</td>
</tr>
<tr>
<td>2. You outline your investing strategy (amount to invest, how often, and when to invest)</td>
<td>complete not complete</td>
</tr>
<tr>
<td>3. You predict the potential value of your investments three years from now</td>
<td>complete not complete</td>
</tr>
<tr>
<td>4. You classify your investment choices as income investment or growth investment</td>
<td>complete not complete</td>
</tr>
<tr>
<td>5. You describe the potential risks and rewards of the chosen investments</td>
<td>complete not complete</td>
</tr>
<tr>
<td>6. You balance the diversity of your investments</td>
<td>complete not complete</td>
</tr>
<tr>
<td>7. You explain how your investing plan aligns with your intermediate- and long-term financial goals</td>
<td>complete not complete</td>
</tr>
</tbody>
</table>

Feedback:

Score ________/50 Name __________________________________________________________ Date ______________

For rating scale information, please turn to Appendix A: Rating Scales.