Understanding Investing

Notes:

Learner Outcomes

Outcome #1: Participants will be able to explain how an investment can grow in value.

Outcome #2: Participants will be able to describe what the Rule of 72 is.

Outcome #3: Participants will be able to explain why games of chance are not good investments for building wealth.

Target Audience

Parents

Materials

1. Flip chart and markers or a dry-erase board and dry-erase markers
2. Name tags (downloaded for free from the Bank It Web site), one for each participant
3. A pen or pencil for each participant
4. Something to track time
5. Evaluation #1-IN-PT for each participant
6. Bank It Notes #1-IN-PT for each participant
7. Optional: PowerPoint Presentation PDF #1-IN-PT
8. Optional: Handout #1-IN-PT for each participant
9. Optional: Handout Answer Key #1-IN-PT for the trainer

Timing

1 hour

Want more background and training tips?

See the free, downloadable Bank It Leader's Guide at www.bankit.com.

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1. Welcome and Overview (5 minutes)

Arrive early. Highly consider using the optional PowerPoint Presentation PDF and the optional Handout. Both will greatly enhance your sessions. If you're using the PowerPoint Presentation PDF, show the "Welcome to Bank It" slide as participants enter the room. Greet each participant individually and learn their names as they arrive. Have them create a name tag with their first name only.

Give participants a copy of the Bank It Notes #1-IN-PT and either a pen or pencil. Have them sit in clusters of about four people. If possible, have them sit at tables. Then welcome the whole group to the session.

Say: *Welcome to Bank It. Bank It delivers real-world financial topics and tools for parents and teens that make it easier to understand, talk about, and manage your money. Bank It was developed by Capital One and Search Institute. I'm glad each one of you is here.*

Today we will focus on understanding investing, and we plan on meeting three goals. One: By the end of this session, you will be able to explain how an investment can grow in value. Two: You will be able to describe what the Rule of 72 is. Three: You will be able to explain why games of chance are not good investments for building wealth.

Feel free to use your Bank It Notes to write what you learn as we go along. At the end of the session, we will take time to complete a short evaluation. (If this session is not the first session you're presenting to this group, consider briefly discussing the optional challenge that you may have given participants at the end of your previous session.)

2. Activity: Familiar or Unfamiliar? (15 minutes)

Say: *An investment is when we use our money to purchase something with the goal of earning money in the future. An investment can be a house, a savings account, stocks, mutual funds, bonds, and collectibles. These are also known as "assets" because they are money or physical resources.*

Say that you're going to do an activity. Have participants practice two gestures: clasping their hands in front of them when they say "yes" to a statement or dropping their hands to their sides when they say "no" to the statement you're giving.

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Once participants are ready, ask: *Are you familiar with anyone who has bought a house?* (Give participants time to respond. If you wish, have participants notice how others have responded.)

Then say other statements such as these, one at a time, pausing to give participants time to respond: *Are you familiar with anyone making money by buying a house? Are you familiar with anyone buying stocks, bonds, or mutual funds? Are you familiar with anyone making money buying stocks, bonds, or mutual funds?*

Are you familiar with anyone buying collectibles as an investment? Are you familiar with anyone making money by buying collectibles? Are you familiar with anyone who has a savings or money market account? Are you familiar with anyone making money by having a savings or money market account? End the activity.

Ask questions such as these (one at a time, giving participants time to respond): *What types of investments have you heard about people losing lots of money on? What types of investments have you heard about that are really risky? What types of investments have you heard about people making money on?*

After you finish the discussion, ask: *How does an investment grow in value?* (If participants have trouble, ask: *How does a house grow in value?* Then ask: *How does a stock grow in value?*)

(Answers could include: The investment's value goes up. With a stock, you can also earn dividends, which are payments you receive from the company for owning the stock.)

Another key part of helping investments grow in value is having a strong economy. An economy is a system for using scarce resources to meet the unlimited needs and desires of a group of people. That's why we can talk about a U.S. economy and the world economy.

You also have a family economy. The way your family uses money is a type of economy.

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3. Present: Investment Tips (15 minutes)

On a flip chart, write "The Rule of 72." Say: *The Rule of 72 is a helpful math equation that can help you figure out how your investments will grow. This rule makes the complexities of investments easy. Let's take a savings account that earns interest. Interest is the money that you receive for having a savings account.*

If you put $100 in a savings account that pays a 2 percent interest rate, how long will it take your money to double in value? In other words, how long will it take your $100 to become $200? The Rule of 72 helps us with that. (On a flip chart, write "72 divided by 2.")

Say: *The Rule of 72 says to take the number 72 and divide it by the interest rate. Since this example has a bank paying 2 percent interest, that's why I wrote "72 divided by 2." Does anyone know the answer?* (Give participants time to respond. The answer is 36. That means it will take 36 years.)

Say: *Okay, let's say that's way too long. So you find a money market account that will pay you 6 percent interest. How will the Rule of 72 help you figure out how long it will take to double your money?* (Give participants time to respond. The answer is 72 divided by 6 equals 12. It will take 12 years to double your money.)

Ask: *Now let's say you put that $100 into that account at 6 percent interest. What do you have to do in order for that money to double in 12 years?* (Give participants time to respond. The answer is: You can't take the money out. It needs to stay there the entire time.)

Ask: *What if you add more money to the account? What will happen?* (Give participants time to respond. The answer is: You will earn even more money.)

On a flip chart, show participants how much money they'll make if they have deposited $200 instead of $100. Say: *It will still take 12 years to double your money, but with $100, you will earn $100. With $200, you will earn $200.*

If you plan to distribute the optional handout, use it at this time.

So what else is important about investing—besides keeping your money in the account? (Give participants time to respond. The answer is: Keep adding more money to the investment to have your investment grow even more.)

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Say: *So let's talk about how investing helps us meet our financial goals. A financial goal can be small, such as saving for $100 pair of shoes. Or it could be big, such as saving for a down payment to buy a house.*

How can investing our money in an interest-bearing account help us meet our financial goals? (Give participants time to respond. The answer is: Your money will grow faster. You're earning money while you're saving money.)

Say: *There are other ways to use our money, which a lot of people think are investments but are really something else. These are called games of chance.*

What is a game of chance? (Give participants time to respond. The answer is: A game of chance is when you use money to try to make money but it's not a sure thing.) Ask: *What are examples of games of chance?* (Give participants time to respond. Answers could include: The lottery, casino, poker, and risky business startups.)

Say: *Games of chance are not good investments for building wealth. Why? Because the chances of you winning money is very low. When you put money into an interest-bearing savings or money market account, you are going to earn money. You also will keep the money you put into that account.*

With the lottery, what happens? You spend your money. It's gone. If you win, great. But if you lose, your money is gone. Now, I'm not saying the lottery or playing poker is bad.

I just think it's better to think about these types of activities as entertainment expenses. It's like going to the movies. You pay to see the movie, and you have a good time. The goal is to have a good time. The goal is not to build wealth, which is what investments do when you invest well.

4. Discuss (10 minutes)

Say: *Take some time to talk to the people near you. Talk to about two or three people. I want you to do two things: 1. Say your first name. 2. Talk about someone you've heard of who has earned money through an investment.*

Start with the person who found money on the ground most recently. Then have each person take a turn.

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5. Review and Evaluate (10 minutes)

Review what was accomplished during this session. Ask: *What is an investment?* (Answer: An investment is when we use our money to purchase something with the goal of earning money in the future.)

Ask: *How does an investment grow in value?* (Answers: 1. The investment's value goes up. 2. With a stock, you can also earn dividends, which are payments you receive from the company for owning the stock. 3. Having a strong economy.)

Ask: *What is the Rule of 72?* (Answer: A math equation that helps you figure out how long it will take to double your money with a certain interest rate. Divide 72 by the interest rate. The answer is the number of years it will take to double your money.)

Ask: *How does investing help us meet our financial goals?* (Answer: Your money will grow faster. You're earning money while you're saving money.)

Ask: *What are examples of games of chance?* (Answers: Lottery, poker, casinos, risky business startups.)

Ask: *Why are games of chance not good investments for building wealth?* (Answer: Because the chances of you winning money are very low. With a smart investment, you can protect the money you put into the investment while also earning money on that investment.)

At the end of the review, distribute Evaluation #1-IN-PT to each participant. Give participants time to fill out the evaluation. Collect all the evaluations after participants finish so you can find out the measurable outcomes for the session.

6. Close (5 minutes)

Say: *It's easy to think that investments are bad ideas because we hear a lot of bad news about people losing money through their investments. When we know how to invest our money and how much risk we are willing to take, we can usually make money for our future.*

Today in our society, it's hard to get ahead without some type of investment. Whether it's opening up a savings account, buying a house, or even investing in the stock market, when we know what we're doing and why, we can make

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positive decisions about the money we invest.

Challenge participants to talk to family members about this topic, which is listed under the Talk about It section of their Bank It Notes. Thank participants for coming and for being involved.

Optional Activities

1. Distribute Handout #1-IN-PT: The Rule of 72. Give participants the handout to complete. Afterward, discuss their answers.

2. Show the PowerPoint Presentation PDF #1-IN-PT. Use the presentation to accompany the one-hour session.

3. Give Participants a Challenge. Encourage participants to use the next week to talk to their teenagers about the importance of investing money in interest-bearing accounts. (If you wish, follow up during your next session to find out how the challenge went.)

Questions? Looking for more ideas? Visit www.bankit.com for answers and more resources.

For More Information

- *National Standards in K–12 Personal Finance Education* (Washington, D.C., Jump$tart Coalition for Personal Financial Literacy, 2007), standard 2 in the area of Saving and Investing.
- *An Asset Builder's Guide to Youth and Money* by Jolene Roehlkepartain (Minneapolis: Search Institute, 1999).