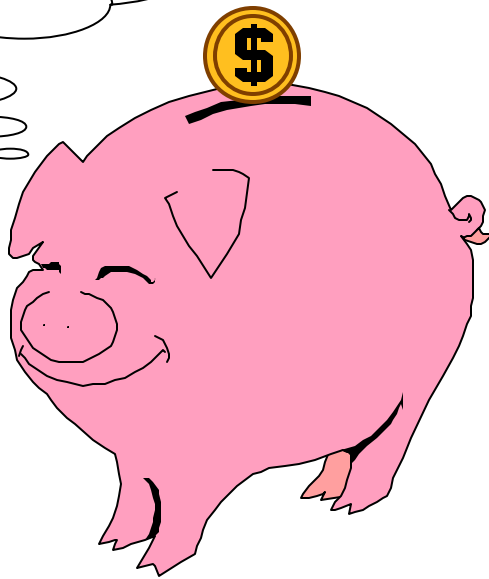


PROJECT F.U.N.D.S

*Fun Understanding Nickel
and Dime Savings*



CHILDREN'S AID SOCIETY

Workshop IV:

**Investing 101:
Making your money grow.**

For use with Middle School Students



Created by: Tanya A. Ramos

PRESENTATION OUTLINE:

Investing 101: Making your money grow.

OVERVIEW

Students will be learn about the effects of interest. The discussion will focus on how interest accumulates over a period of time and various interest-bearing options.

OBJECTIVES: Students will:

- Understand the concept of interest and compounded interest.
- Identify the various ways to make money grow.
- Discuss their experience with the financial instruments discussed.

Lesson # 1

TIME NEEDED: Approximately 45 minutes

GOALS: Students will understand how to make money grow.

OBJECTIVES: Students will understand how interest works.
Students will calculate interest for various saving amounts.
Students will define compound interest.
Students will explore different interest-bearing options.

MATERIALS NEEDED: Chart paper and markers (for teacher) or blackboard and chalk, money journal and pencils.

INTRODUCTION

Greet students.

- ◆ Ask students what it means to “make money grow”.
- ◆ Write the word “INTEREST” on the board.
- ◆ Define interest as payment made for the use of their money. Give examples of different interest rates for savings accounts, as offered in various financial institutions such as: Chase, Banco Popular, or Citibank.
- ◆ What is an interest rate? (*Explain that interest is calculated as a percentage of a saver’s deposit. The percentage is called the interest rate. The saver receiving \$4 for a \$100 deposit is earning a 4% interest rate.*)

ACTIVITY:

- ◆ Allow students to explore the following examples:

1) If you put \$100 in a box under your bed for 10 years, how much money would be in box at the end of 10 years. (\$100)

2) If you deposited \$100 in a savings account, would you have \$100 at the end of 10 years? (No, you would have more because of interest) i.e. \$100 in a savings account, earning 5% in interest during the year, how much would you have at the end of ten years? (\$162.90)

3) If you had \$10,000 in the bank and earned 6% interest, at the end of the year, you would have \$10,600.

4) Another example: A 10-year old who starts saving \$10 a week in a 6% savings account would have \$3,700 by the time they were 16 years old. **(Have students calculate how much this 10-year old contributed of his own money and how much of the \$3,700 is interest. i.e. \$40.00 a month...12 months in a year....\$480 a year...over 6 years....=\$2,880...therefore,...\$820.00 was earned in interest.)**

- ◆ Explain that three things are important in determining the earnings on a savings account:
 - (1) The amount deposited.
 - (2) The interest rate.
 - (3) The length of time the money is left on deposit.

- ◆ What is Compounded interest? Refer back to example 2. Explain to students that compound interest is interest earned on top of interest. In other words, if you earned 5 dollars in interest, over the course of a year, for a \$100 deposit the following year you would earn interest on \$105.

Exploration:

- ◆ Refer to example two: Have students figure out the compounded interest earned on the \$100 over 10 years:
- ◆ Allow students about 15 minutes to work on this problem in pairs.

Yr. 1	Yr. 2	Yr. 3	Yr. 4	Yr. 5	Yr. 6	Yr. 7	Yr. 8	Yr. 9	Yr. 10
\$105	\$110.25	\$115.76	\$121.55	\$127.62	\$134	\$140	\$147.75	\$155.13	\$162.90

Assessment:

- ◆ Review process and answers to student's calculations of compounded interest. Allow students to share their answers. Listen and observe student's responses carefully to determine how well they comprehended all the material.
- ◆ Remind student that this subject matter is not easy and that even adults have difficulties understanding these concepts.

Lesson # 2

- TIME NEEDED:** Approximately 45 minutes
- GOALS:** Students will understand various interest-bearing options: including savings bonds, CD's, stock and mutual funds.
- OBJECTIVES:** Students will LISTEN to a description of various interest bearing options.
Students will READ a description of these options.
Students will EXPLAIN in their own words what these options are.
- MATERIALS NEEDED:** Chart paper and markers (for teacher) or blackboard and chalk, money journal and pencils. Handout, "Interest bearing options".

INTRODUCTION

- ◆ We have been learning about how to grow your money. There are four other ways you can grow your money:
 1. **Savings Bonds:** Most common lending investment traded on securities markets. When a bond is issued, it includes a specified maturity date at which you will be repaid your principal and the interest. For example, if you buy a \$50.00 bond you will only pay \$25.00 and the bond will mature into \$50.00.
 2. **Certificate of Deposit:** When you buy a CD from a bank they will pay you interest for your money. Some CD's pay 5% to up to 10% for your money. Just remember if you have a 6-month CD you have to keep your money there for the whole six months. If you take it out sooner, the bank will charge you.
 3. **Stocks:** Shares of ownership in a corporation. People who buy shares of stock hope to earn dividends, which are shares in the corporation's profits. So if the company is doing well, you will make money, if they are not doing well you will lose money. *(Have students give examples of companies they would like to buy stock from.)*
- ◆ Tell students that people invest in stocks because the return on their investment is generally higher than the amount of interest they earn on a savings account or CD. The return is higher because the **risk** is greater. Savings accounts are insured by the federal government up to \$100,000; investments in the stock market are not. Shares of stocks can lose value.

4. **Mutual Funds:** Mutual investment companies “pool” your money with that of thousand of other like-minded individuals and invest it in stock, bonds, and other securities. It’s like being in an investment club without a meeting. When you invest through a typical mutual fund, several hundred million to a billion dollars or more is invested along with your money.

Mutual Funds have been successful for many reasons:

1) Low cost

- less than one percent per year in fees
- transaction fees are generally 80-90 percent less than per share of stock
- if you want to withdraw money from a fund, there are no penalties

2) Diversification;

- enable you to diversify to an extent that you can not achieve on your own without several hundred thousands of dollars less risky as your money is spread out

- ◆ Distribute handout.
- ◆ Allow students to read information on sheet.
- ◆ Discuss handout.

Assessment:

- ◆ Ask students to explain in their own words the terms they were introduced to.

Exploration:

- ◆ Ask students if they have ever heard of the Dow Jones?

Explain that the **Dow Jones** is actually short for the “**Dow Jones Industrial Average.**” The Dow Jones was created by two newspaper reporters named --you guessed it—Dow and Jones. Charles Dow and Eddie Jones started a little publication, in 1889, called the “**Wall Street Journal**”. Similar to today, the Journal reported almost every bit of financial news possible, as well as compiled stock prices of large companies and tracked the stock market’s performance as a whole. In order to do this, they calculated indexes, which are basically list or groups of major companies whose performance reflects the entire markets.

The **Dow**, was expanded to include 30 companies in 1925. They are not the biggest, they are not the richest, they are not the best, they are just the 30 companies that the staff of today’s **Journal** think most accurately reflects the economy. It is usually diverse, just like the economy, and it changes over the years, just like the economy.

- ◆ Allow students to guess what companies are in the current index of the Dow Jones by industry. Students are usually surprised by what companies are listed.
- ◆ Refer to the following list (Not all 30 are listed):

<u>Industry</u>	<u>NAME THAT COMPANY....</u>
Financial/Travel Services	American Express
Long Distance/Communications	AT&T
Financial Services	Citigroup
Beverages	Coca-Cola
Television/Entertainment	Disney
Photography	Eastman Kodak
Oil	Exxon Mobil
Electronics/Manufacturing	General Electric (students never guess this)
Auto Manufacturing	General Motors
Home Improvement Products	Home Depot
Computer Microprocessor Manuf.	Intel
Consumer Products	Johnson & Johnson
Computer Software	Microsoft
Tobacco/Food	Phillip Morris
Restaurants	McDonalds

- ◆ Distribute stock market handout. Show students how to read a stock market table. Have students note the closing price. (*This is the price people pay when they buy the stock on a given day.*)
- ◆ Ask students what are some of the things that they should think about before investing their money. (**Safety**; *What are the chances that I will lose my money, **Liquidity**; How easily can I get my money if I need it or want it, **Yield**; How much will I gain for investing my money.....ask students how much of interest percentage would they like for their money 5%, 6%, or 10% and why?)*
- ◆ Remind students that this subject matter is not easy and that even adults have difficulties understanding.

SUMMARY AND REVIEW

- ◆ Review the term interest.
- ◆ Have students name the various interest bearing options.

