



Financial Literacy with Mr. 401(k)
Spring Term 2026
May 20, 2026

Getting Started with
Investing

Class 28: Investment Fund Basics

Financial Literacy with Mr. 401(k) ("FinLit with Mr. 401(k)") © 2026 PETROS.
Licensed under CC BY 4.0: <https://creativecommons.org/licenses/by/4.0/>
Source: <https://petros.us/about-finlit>



What Is an Investment Fund?

Think of it as a slice of many investments at once



Investment Fund

Capital belonging to several investors, used to collectively buy investments like stocks and bonds, while each investor still owns their own share.



What You Get

A proportional slice of the pie!

One share of the fund = your proportional slice of every single investment the fund owns. If the fund holds 3,500 different stocks, your one share gives you a piece of all 3,500.



Why It Exists

Affordability, convenience, & diversification

Many people don't have enough money, or time, to buy a piece of every company themselves. A fund pools money from many investors, so each one can own a small slice of a lot of things at once.

The Two Funds that Matter Most

ETFs and Mutual Funds – same idea, two wrappers



Exchange-Traded Funds (ETFs)

Trades like a stock. You can buy or sell pieces during market hours at current market prices.

Most have very low costs. A fund like VTI charges 0.03% per year = three cents for every \$100 invested.

No minimum to start. Most brokerages let you buy a fraction of a single share.



Mutual Funds

Priced once a day. You buy or sell at the end-of-day value of the fund, not live market prices.

Costs vary. Some are as cheap as ETFs (Vanguard, Fidelity index funds). Others are more expensive.

Often used inside retirement accounts. Your parents' 401(k) menu is mostly mutual funds.

ETFs and Mutual Funds, Simplified

Two pictures that make these wrappers feel concrete.



ETF = Shopping Basket

An ETF is like a shopping basket that holds a little bit of many different investments (e.g., stocks, bonds, gold, real estate, even bitcoin).

You can buy or sell shopping baskets on the stock market, just like you'd buy a single company's stock.



Mutual Fund = Giant Jar

A mutual fund is like a giant jar where many investors put their money. A manager decides how to invest the money in the jar.

The jar's value rises or falls with the investments inside. You can swap your share of the jar back for cash at the end of any trading day.

Index Funds vs. Active Funds

Same wrappers, but with two very different strategies



Both can be ETFs or mutual funds. The difference isn't the wrapper, it's what the fund is trying to do.



Index Funds

"Buy a market index and hold it."

How: Holds every stock (or bond) in a known list, like the S&P 500, the entire U.S. stock market, or an index of bonds.

Cost: Very low. VTI is 0.03%. No expensive humans picking winners.

Examples: VTI, SPY, BND.



Active Funds

"Hire smart people to pick winners."

How: A manager (or team) buys and sells trying to beat a benchmark index.

Cost: Much higher. 0.50% to 1.00%+ per year is normal. Those salaries cost money.

The catch: Most active funds underperform their index after fees — not all, but most.



Class Discussion

Why might people choose investment funds over individual stocks, bonds, real estate parcels, or cash?

Funds Solve Barriers from Last Class

Limited capital. No expertise. Time cost. One wrapper solves it.



Barrier 1:

Limited Capital

Last class said: you can't afford to buy shares of every company and bond without lots of money.

Funds solve it: one share of VTI (~\$360 today) gives you a slice of nearly all public U.S. companies. With fractional shares, even \$5 buys you a piece of all 3,500.



Barrier 2:

No Expertise

Last class said: picking individual winners requires analyzing each company.

Funds solve it: the fund's mandate does the picking. Index funds buy a market index. Active funds hire managers. You don't need to read 500 annual reports.



Barrier 3:

Time Cost

Last class said: rebalancing and research each month take hours, cutting into student activities.

Funds solve it: no rebalancing, no quarterly earnings reports, no spreadsheets. The fund handles it. You handle living your life.

The Fund You Already Met: VTI

\$0.03 to own a piece of every public U.S. company

VTI – Vanguard Total Stock Market ETF. **One share buys you a slice of every public company in America.**



What it holds

3,500+

public U.S. companies.

From Apple and Microsoft down to the smallest publicly traded business.

One share = a piece of nearly all of them.



Why it worked

\$7,500 → \$65,000+

over ~21 years.

~11% per year, on average.

Not because Vanguard picked winners, but because the U.S. economy grew, and the investor owned a slice of all of it.



What it costs

0.03% per year.

\$3 per \$10,000 invested.

\$0.30 per \$1,000.

\$0.03 per \$100.

Almost free, by historical standards.

No Free Lunches: Know Fund Costs

Same \$50 a month. Same 8% return. Same 30 years. Fees differ.

0.03% sounds like nothing. *Fund fees compound over time, just like returns. Even small differences in fees can cost you thousands over a lifetime of investing. Active fund managers must beat the benchmark index by their fees just to break even.*



Index fund (e.g. VTI)

Expense ratio **0.03%**

Net return

7.97% / yr

After 30 years

\$74,100

Lowest fees, most money kept



Typical mutual fund

Expense ratio **0.50%**

Net return

7.50% / yr

After 30 years

\$67,400

\$6,700 less value from fees.



Expensive active fund

Expense ratio **1.00%+**

Net return

7.00% / yr

After 30 years

\$61,000

\$13,100 less value from fees.

How a Teenager Actually Starts

Dollar-cost averaging – annuity investing into real funds



Dollar-Cost Averaging – Buying the same dollar amount of a fund on a regular schedule (e.g., \$50 every month). *When prices are high, your \$50 buys fewer shares; when prices are low, more. Over time, you average in.*



If you start at 14 and stop at 44

\$50 per month × **30** years × **8%** a year

≈ \$74,500

You put in \$18,000. The market and time did the rest.



If you start at 14 and stop at 64

\$50 per month × **50** years × **8%** a year

≈ \$396,500

You put in \$30,000. The same \$50/month, but with twenty years more compound growth.

How a Teenager Opens an Account

Many options, but always work with a parent or guardian



A **custodial brokerage account** is a real brokerage account for minors with a parent listed as the custodian until age 18, 21, (or 25 in some states).

Your parent has signing authority. Once you're an adult, you own it outright.



Three Easy Steps

1. Ask a parent or guardian to sign up.
2. Open an account online (e.g. Fidelity Youth, Schwab, Vanguard, etc.)
3. Set up a recurring monthly deposit. Pick your funds. Done.

Fidelity Youth[®] Account

Teen-owned account with parental oversight

Fidelity Youth[®]

A teen-owned brokerage account that gives ages 13-17 the freedom to invest in most US stocks, ETFs, and Fidelity mutual funds—while parents stay connected.

Get started

Fidelity Youth[®] Account benefits

Helping the next generation grow their knowledge, build smart money habits, and plan for the future.

\$0	Investing with as little as \$1	Debit card available
The Fidelity Youth [®] Account has no subscription fees, no account fees, and no minimum balances to open. ¹	Start small and explore the market with confidence with tools, education, and resources built for new investors	Teens can optionally request a debit card to make purchases directly from their Youth Account.

Ages 13–17. Zero account fees. \$0 minimum to open. Invest with as little as \$1. Buy fractional shares of stock or many ETFs.

From Theory to Practice

Building the teenager's portfolio: 6 buy orders in 10 minutes



Prior Class: With years to invest, the teenager can use mostly stocks, with some diversifiers to real estate, commodities, and possibly bitcoin. **Let's actually build this!**

Slice	Ticker	What it actually holds	Cost (per \$10,000)	\$500 Allocation
70% stocks	VTI	Nearly every public U.S. company (3,500+)	\$3 / yr	\$350
12% int'l stocks	VXUS	Non-U.S. company stocks	\$5 / yr	\$60
3% bonds	BND	Thousands of government and corporate bonds	\$3 / yr	\$15
1% cash	—	Whatever your brokerage pays in interest	\$0	\$5
6% real estate	VNQ	U.S. real estate owners, including REITs	\$13 / yr	\$30
5% bitcoin	FBTC	Bitcoin exposure through a spot bitcoin ETF	\$25 / yr	\$25
3% gold	AAAU	Gold exposure through a physical gold ETF	\$18 / yr	\$15

 This entire **\$500** portfolio costs about **27¢ per year** to own.

Reading a Fund's Name

VTI is one column of a much bigger menu.



Why this matters: When you open a brokerage account, you'll see hundreds of funds (e.g. “Vanguard Mid-Cap Growth Index,” or “Fidelity Select Healthcare.”) ***Each word is doing work.***



Within stock funds alone

Three things a fund's name can tell you

Size: Large Cap, Mid Cap, or Small Cap.
(how big the companies are)

Style: Growth, Value, or Blend.
(growth = companies growing fast; value = companies whose price looks low compared to their profits)

Geography: US, Foreign, or Emerging Markets.
(emerging = countries growing fast, like Brazil, India)



Beyond stock funds

Other kinds of funds you'll see

Target Date Funds: automatically moves from stocks to bonds as a target year approaches.
(“Target 2070” = retire around 2070)

Sector Funds: one industry only (e.g., technology, healthcare, energy, or banking).

Bond Funds: grouped by who borrowed the money (a government or company) and how long until repaid.

Commodity Funds: physical goods (e.g., gold or oil).



VTI = U.S. Total Market, Blend. Knowing other types helps you build a more complete portfolio.

Practical Application

Jessica is 14. She earned \$1,000 providing pet sitting services through the summer. She also earns \$100 a month babysitting. Jessica's parents will open a custodial brokerage account for her. Answer the following in your Money Journals:

1 Build Jessica's starting portfolio

Select investment funds for Jessica's portfolio from the investment menu handout. Assign a dollar amount to each. They must total \$1,000.

2 Set her DCA plan

Pick a monthly amount Jessica can sustain from her \$100/month babysitting income. Pick which fund(s) the monthly contribution buys.

3 Bonus

If Jessica inherits \$10,000, what would you adjust in her portfolio and why?

Practical Application

Two volunteers who developed different investment plans for Jessica. 1 minute presentation each, then 1 minute to compare.

Volunteer #1

Read out the funds you picked for Jessica and how much you put in each. Then, what's the one fund on the menu you almost picked but didn't? Why did it lose out?

Volunteer #2

Same. Read your funds and your DCA plan. Then, name one fund Volunteer 1 picked that you didn't (or vice versa). What made the difference?



Three Key Takeaways

- Investment funds resolve the three barriers to investing identified in the last class of limited capital, no expertise, and time cost.
- \$50 a month, a custodial brokerage account, and a small handful of broad-market ETFs is the whole playbook, enabling anyone, teenagers included, to start investing.
- Learning how to invest helps put together the broad financial picture when paired with income, expenses, budgeting, debt, life events, and taxes.



Where to Learn More

- [Investopedia Stock Market Simulator](#) by Investopedia
- [The Intelligent Investor: The Definitive Book on Value Investing](#) by Benjamin Graham
- [Ultimate Investment Guide and Stock Market for Teens: Money Management, Maker, Saving, Budgeting, and Investing Skills for Financial Teenager's Freedom](#) by Samantha Parker

X @PETROS_USA

in <https://linkedin.com/in/petrosk>

Learn it. Earn it. Own it. Grow it.

Teaching young people how
money really works

**Financial Literacy with
Mr. 401(k)**

<https://petros.us/about-finlit>

