



Financial Literacy with Mr. 401(k)
Spring Term 2026
May 18, 2026

Getting Started with Investing

Class 27: Building Blocks of a Strong Portfolio



Monday Money Matter\$

Can colleges still deliver in the age of AI? One Ivy League school is investing \$30 million to improve career outcomes. College students increasingly worry that artificial intelligence (AI) could replace the jobs they hope to get after they graduate. In response, colleges are shifting their focus to "career readiness." Dartmouth, an Ivy League school, raised \$30 million so students can get up to \$6,500 per term for unpaid or low-paid internships. Other schools, such as the City University of New York, are adding paid internships, apprenticeships, and career advising. Surveys show about 2/3 of students feel pessimistic about the job market. 4 in 10 have considered changing their major because of AI.

Source: CNBC; <https://www.cnbc.com/2026/05/18/what-this-ivy-league-is-doing-to-get-students-hired-in-the-age-of-ai.html>; Reference Date: May 18, 2026

What This Class Covers

From the accounting equation to a portfolio, you can describe

1. $A = L + E$ Recap

Module 3's accounting equation, read from the investor's side. Companies raise cash by issuing debt or issuing equity.

2. Stocks and Bonds

Two broad classifications of investments: Equity (ownership) and Fixed Income (lending). Your first investing vocabulary.

3. Risk and Return

More risk usually means more potential return, and more potential loss. A tradeoff every investor faces.

4. Allocating a Portfolio

Mix stocks, bonds, cash, and real estate to fit a goal, a time horizon, and a tolerance for risk.

 **By the end of class: you can describe a portfolio in your own words.**

Recap: What Is Investing

Think of it as putting your money to work for your future self



Investing

The transfer of value today, in exchange for what an **investor** **expects** to have **greater value** in the future, while accepting that outcomes are not guaranteed.



What You Trade Today

You choose not to spend money now

When you invest, you use money today instead of buying something with it right away. It's different than saving because the value is uncertain. That choice is called a tradeoff.



What You Hope to Get Later

More value in the future

An investment might become worth more, pay you money along the way, or both. But it can also lose value, so the result is not guaranteed.



Class Discussion

*What's a
company you
love?*



Class Discussion

If that company has a big new idea: a new store, a new product, or more workers. What are some ways it could pay for that?

Two Broad Investment Categories

Where financial assets live: someone's debt or their net worth



1

Fixed Income

Investing in **what others owe** – their liabilities

Example: **Bonds**

A bond is like lending money to your favorite pizza shop so it can buy a new oven. The shop promises to pay you back later, plus a little extra for letting them “rent your money.”



2

Equity

Investing in **others' net worth** – their equity

Example: **Stocks**

A stock is like owning a piece of your favorite pizza shop. If the shop gets more popular, your slice is worth more.



Every financial asset in the world is one of these two, or a combination of the two.


Recap: The Fundamental Financial Accounting Equation

$$\text{Assets} = \text{Liabilities} + \text{Equity}$$


Recap: The Fundamental Financial Accounting Equation

$$\text{Assets} = \text{Liabilities} + \text{Equity}$$

The stuff
people
own



The stuff
people
owe



People's
financial
net worth



Three Ways to Raise Cash

People and Governments have 2 levers. Companies have 3.

Assets = **Liabilities** + **Equity**



① Sell something you own

Reduce one asset; gain cash

Example: Nordstrom sells a suit from its inventory to Mr. 401(k)

Available to: people, companies, governments



② Borrow money

Increase what you owe; get cash

Example: Nordstrom issues a BOND for lenders to hold as an investment

Available to: people, companies, governments



③ Sell a piece of ownership

Increase equity; get cash

Example: Nordstrom issues STOCK for buyers to hold as an investment

Available to: companies only

Two of Those Levers Create an Investment

② Borrowing Side

Issuer

“I need cash.”

I borrow it.

That’s a new liability.

Investor

Hands over cash. Holds a

BOND

Anyone can do this: people, companies, or governments.

③ Ownership Side

Issuer

“I need cash.”

I sell a slice of the company.

That’s a new equity stake.

Investor

Hands over cash. Holds a

STOCK

Only companies can do this.



Class Discussion

Why might a company need more cash than it earns from selling things?

Why Might Companies Raise Cash?

People and small businesses often borrow from banks. Big companies can also raise money from investors by selling their debt or equity.

Selling Debt = Issuing Bonds | Selling Equity = Issuing Stock



Buy Big Things

To buy long-lasting things the business needs, like buildings, machines, trucks, or computers.



Grow the Business

To open new locations, reach new customers, hire more people, or make more products.



Pay Everyday Bills

To cover normal business costs, like payroll, supplies, rent, and bills while waiting to get paid.



Research and Development

To invest in innovation and the development of new products or technologies.

Recap: Risk & Return Tradeoff

More risk = bigger potential reward, but bigger potential loss.



⚠️ **All investments carry risk.**

Even "safe" ones carry inflation risk over the long run.

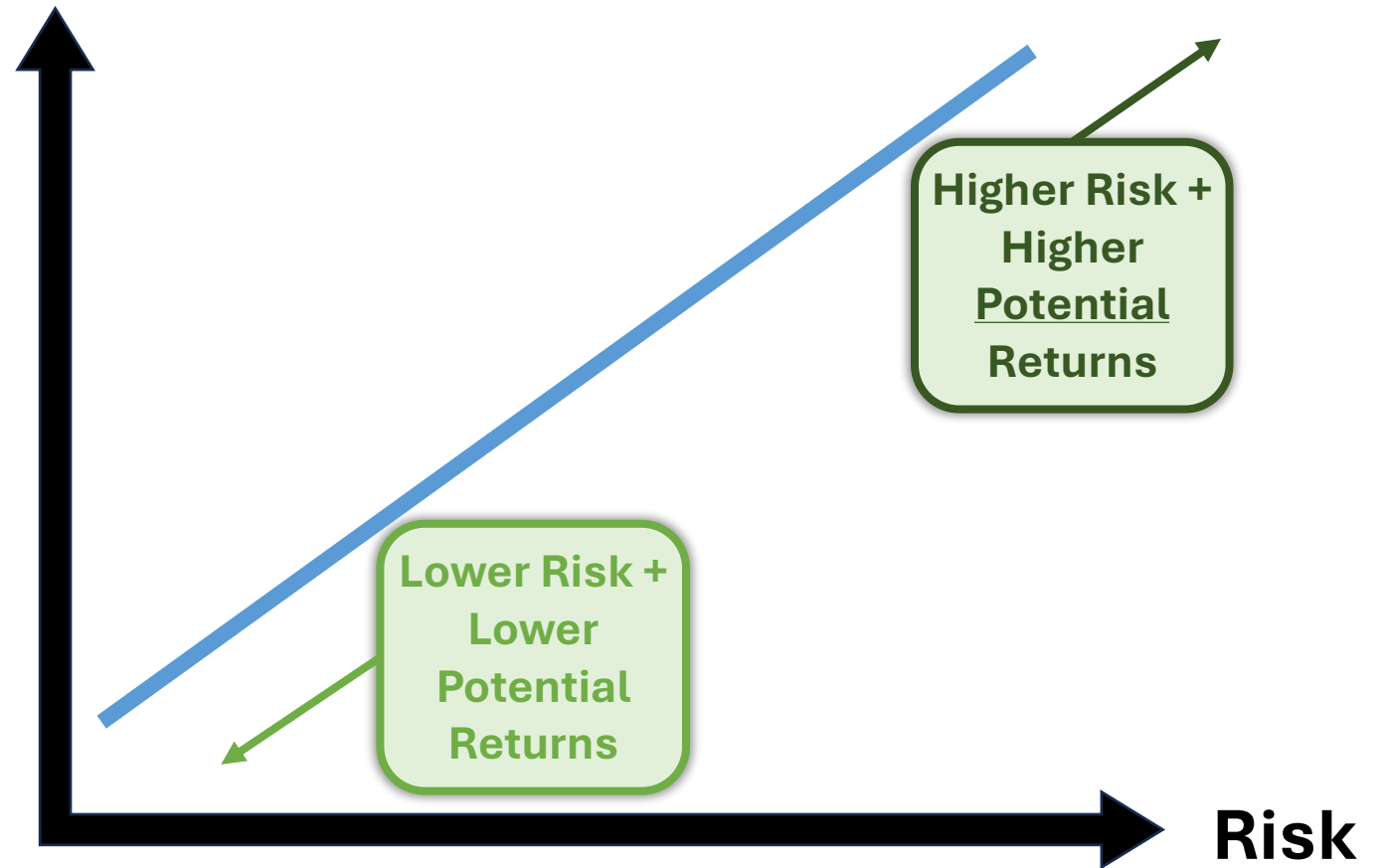
📈 **Higher risk →**

higher potential returns.

🐢 **Lower risk →**

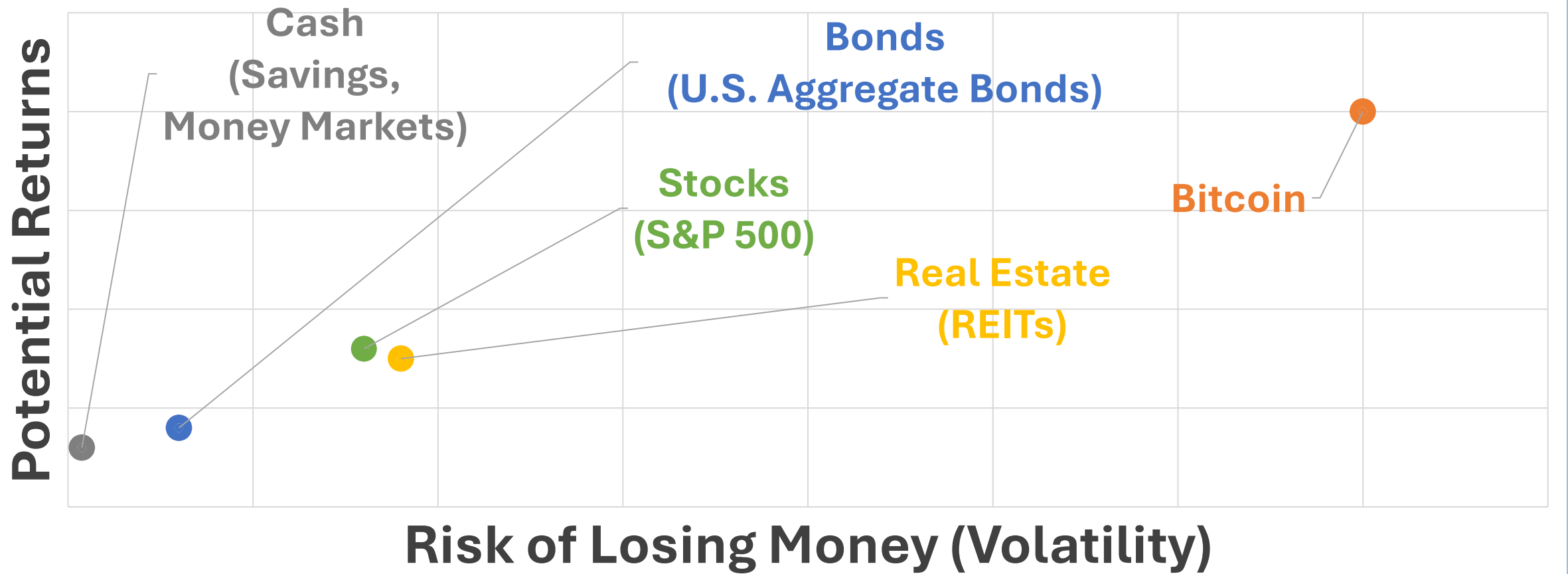
lower returns.

Returns



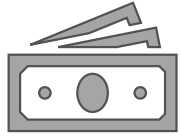
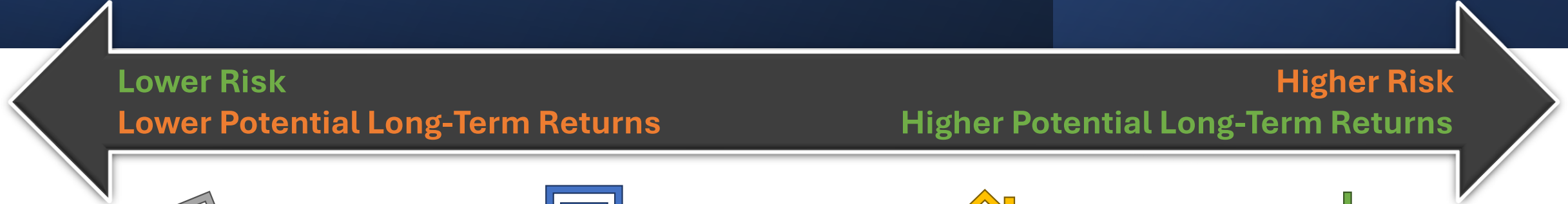
⚖️ The tradeoff between investment risk and return helps investors decide what to do with their money.

Visualizing Investment Risk & Potential Returns Among Different Assets



Single-Investment Risks by Asset Type

Risks you can manage by choosing different investments within an asset class



Cash

- ① Opportunity Cost Risk,
- ② Bank Solvency Risk

Bonds

- ① Interest Rate Risk,
- ② Default (Credit) Risk

Real Estate

- ① Tenant Risks,
- ② Vacancy Risk,
- ③ Location Risk,
- ④ Liquidity Risk

Stocks

- ① Business Risk,
- ② Operational Risk,
- ③ Financial Risk,
- ④ Legal Risk

💡 Inflation risk applies to every asset class. It's a market-wide risk, not a single-investment risk. ⚠️

Recap: What Is Diversification

*Think of it as **NOT** putting all your eggs in one basket*



Diversification

A **risk-management strategy** that spreads money across **many different investments**. If a few investments do poorly, the others can cushion the loss, so no single bad outcome wipes you out.



Why It Helps

One bad investment won't break every egg

If one company fails, you still own the others. If one industry slumps, others may be doing fine. If U.S. stocks fall, bonds or international stocks may hold up.



How To Do It

Own different "boxes" of investments

Different types: stocks, bonds, real estate.
Different companies within each type.
Different industries (e.g. tech, energy, healthcare.) Funds (Class 28) make this easy.

⚠ Diversification doesn't eliminate risk. It spreads it out, so no single bad outcome wipes you out.



Class Discussion

You're a middle school student. Someone hands you \$1,000 to invest. Before you decide where to invest it, what's the first thing you want to know?

Four Questions Before You Allocate

The same four inputs every investor uses, instructor included.

1. Time Horizon



How long until I need this money?

Longer time horizons let compound growth do more of the work. Shorter horizons leave less time to recover from a market drop.

Anchor: Module 5 – the power of time.

2. Goals



What is this money for?

Retirement is a different goal than a car or college. Each goal has its own horizon, tolerance, and liquidity profile.

Anchor: Class 25 - is college a smart investment.

3. Risk Tolerance



How much of a loss before I panic?

Investors who sell at the bottom lock in losses. Knowing your risk tolerance up front prevents emotional decisions later.

Anchor: Class 26 – risk & return tradeoff.

4. Liquidity Needs



How quickly will I need the cash?

Some assets sell instantly (stocks, bonds). Some take weeks or months (real estate). Some lose value if sold early.

Anchor: Class 26 – saving vs. investing.

Answer these four questions, and your investment allocation almost writes itself.

Three Investors, Three Allocations

Same building blocks. Different answers to the four questions.

The Teenager

Age 15

- **Time Horizon:** Very Long
- **Risk Tolerance:** Very High
- **Liquidity:** Low
- **Goal:** Build long-term net worth

Analysis: *With years to invest, the teenager can use mostly stocks, with some diversifiers to real estate, commodities, and possibly bitcoin.*

The New Parents

Ages 27 / 28

- **Time Horizon:** Long; ~18 years
- **Risk Tolerance:** High
- **Liquidity:** Low
- **Goal:** Fund child's education

Analysis: *Saving for college in 18 years means the new parents can start with mostly stocks and some real estate, then add bonds and cash as college gets closer.*

The Retirees

Ages 65 / 66

- **Time Horizon:** Shorter
- **Risk Tolerance:** Low
- **Liquidity:** High; living expenses
- **Goal:** Income + safety

Analysis: *Because retirees need money sooner, they may rely on bonds for steadier returns, with diversifiers to some stocks and real estate for real return growth.*

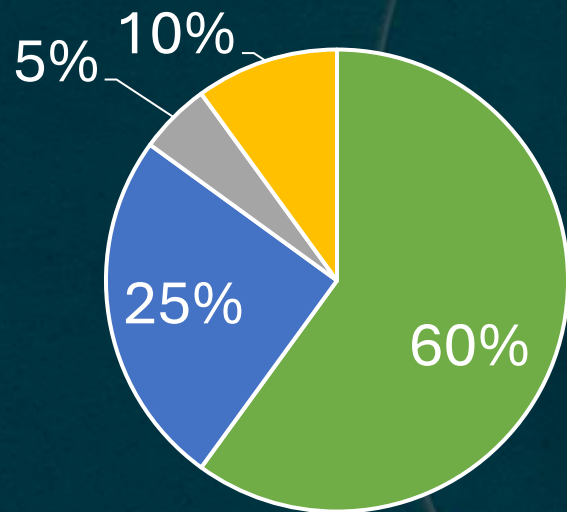


Same four building blocks. Three profiles. Three different right answers.

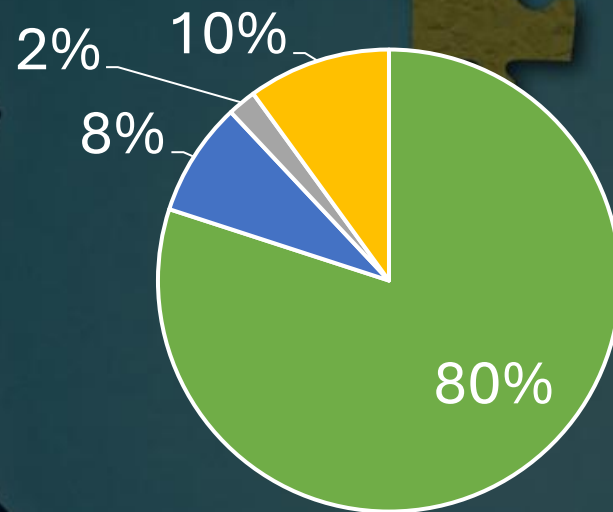
Practical Application



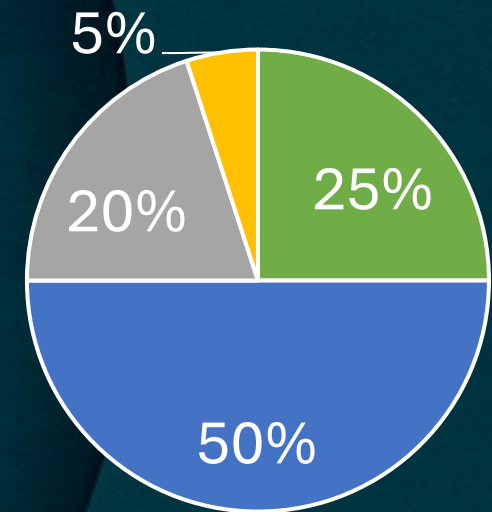
Evaluate the following portfolio allocations. Which do you think has the highest risk of losing money over a short-term period?



Stocks Bonds
Cash Real Estate



Stocks Bonds
Cash Real Estate

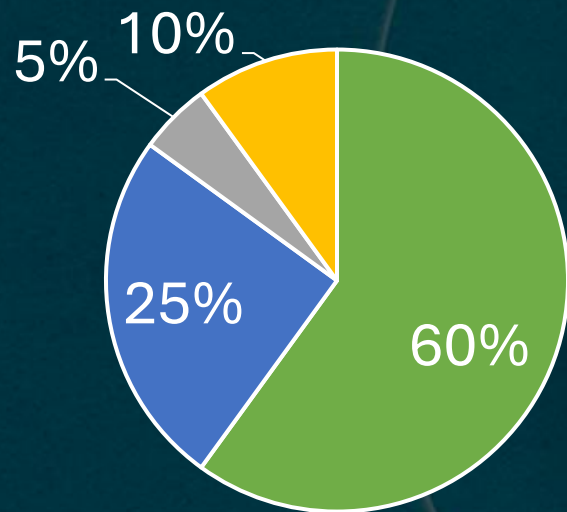


Stocks Bonds
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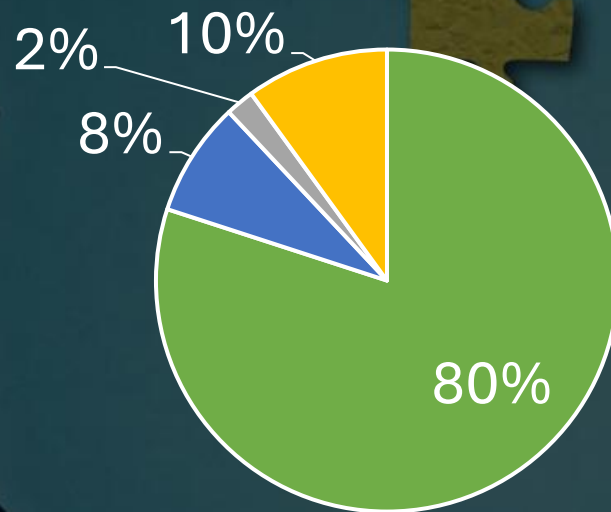
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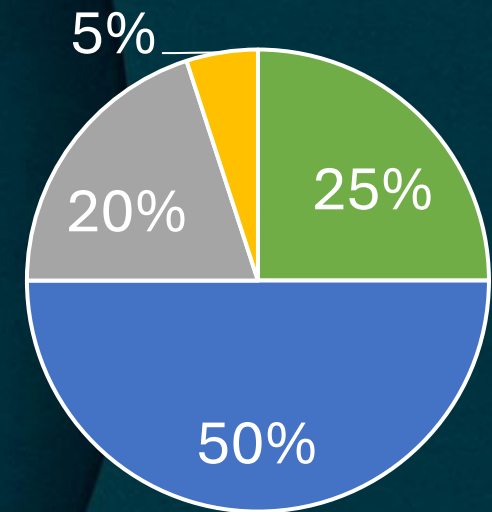
Evaluate the following portfolio allocations. Which do you think is most at risk to the effects of inflation over a long-term period?



Stocks Bonds
Cash Real Estate



Stocks Bonds
Cash Real Estate

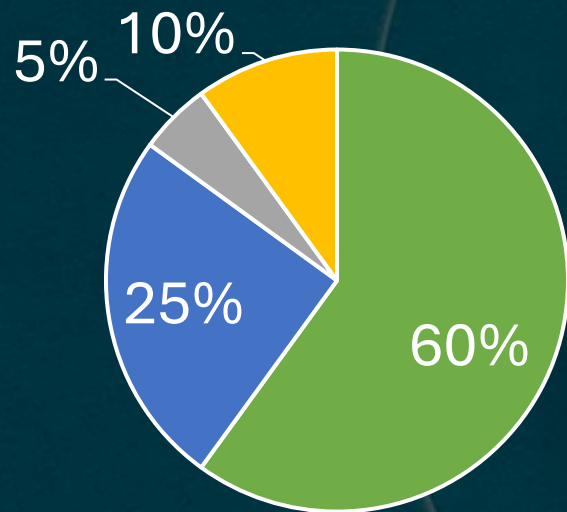


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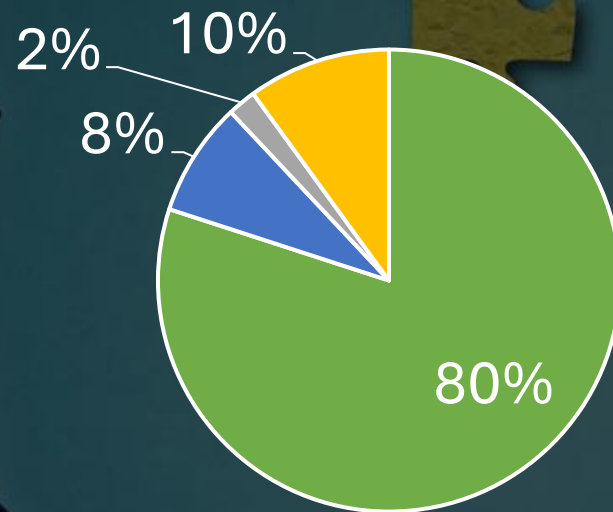
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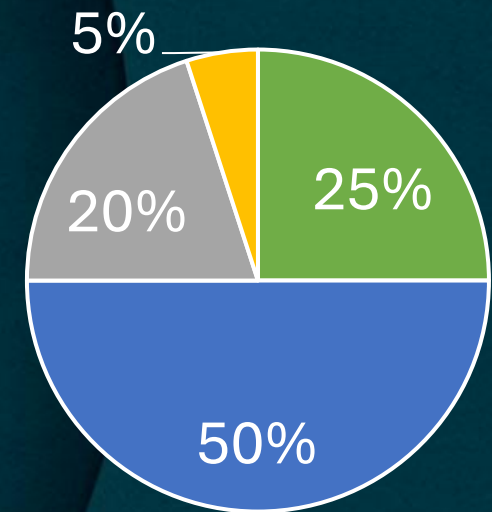
Evaluate the following portfolio allocations. Which do you think is likely to appreciate the most over a long-term period?



Stocks Bonds
Cash Real Estate



Stocks Bonds
Cash Real Estate

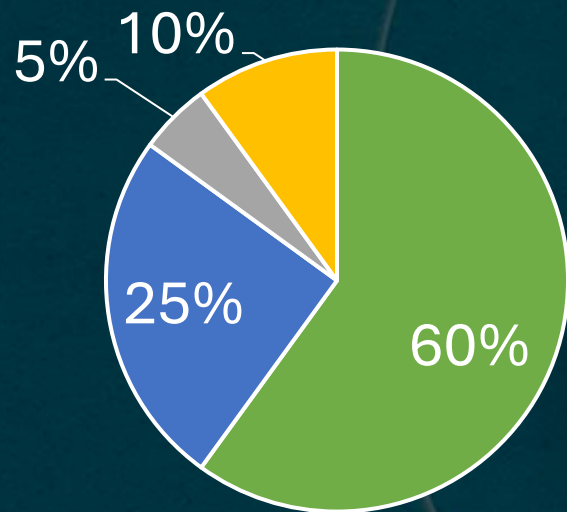


Stocks Bonds
Cash Real Estate

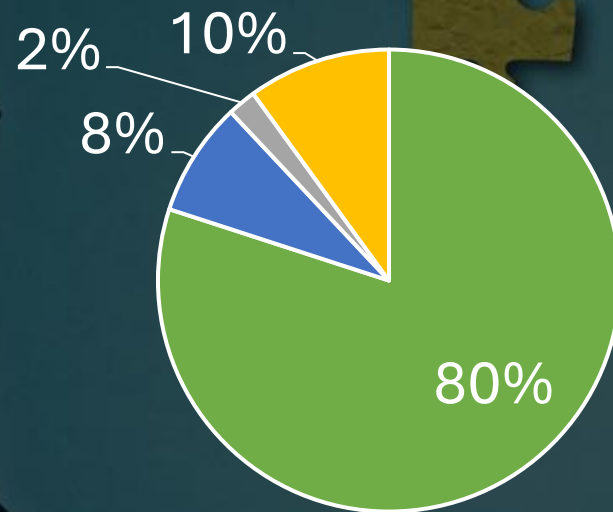
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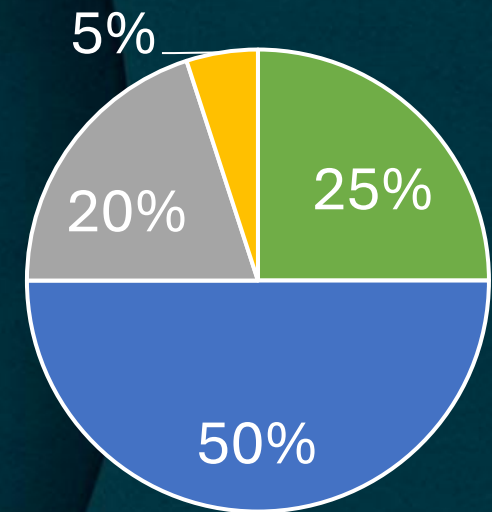
Evaluate the following portfolio allocations. Which do you think is most appropriate for a teenage investor?



Stocks Bonds
Cash Real Estate



Stocks Bonds
Cash Real Estate



Stocks Bonds
Cash Real Estate

How Would I Actually Own All This?

Knowing the menu is one thing. Building the meal is another.



Limited Capital

A diversified mix might be 60% stocks, 25% bonds, 5% cash, 10% real estate. With \$50 saved up from chores, how do you buy 60% of "stocks" and 10% of "real estate"?



No Expertise

Which stocks? There are thousands of companies in the stock market. Which bonds? Government? Corporate? How do you decide?



Time Cost

Even if you had the money and the knowledge, researching dozens of investments, and rebalancing them when prices change, would be a full-time job.



Next class: a tool that solves all three at once -- Basics of Investment Funds.



Three Key Takeaways

- $A = L + E$ in your hands as an investor: when you buy a stock you buy a piece of a company's net worth; when you buy a bond you become a lender.
- Your age, time horizon, and risk tolerance shape the right portfolio for you, so a teenager with 50 years ahead can hold a different mix than a retiree.
- Limited capital, limited expertise, and the research time required mean many investors can't build a diversified portfolio one stock at a time, so we will look at solutions that make this easier: investment funds.



Where to Learn More

- [Rich Dad Poor Dad: What the Rich Teach Their Kids About Money That the Poor and Middle Class Do Not!](#) By Robert T. Kiyosaki
- [Financial Literacy for Young Adults Simplified: Discover How to Manage, Save, and Invest Money to Build a Secure & Independent Future](#) by Raman Keane
- [What is Investing? A Simple Explanation for Kids and Teens](#) (easypeasyfinance.com) via Easy Peasy Finance

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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>

