



Financial Literacy with Mr. 401(k)  
Winter Term 2024 - 2025  
February 26, 2025

# Getting Started with Investing

## **Class 25: Smart Investing II - Building Blocks of a Strong Portfolio**

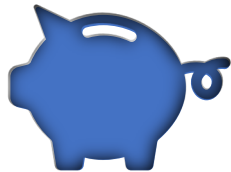


# What Young Investors Should Consider **Before** Investing



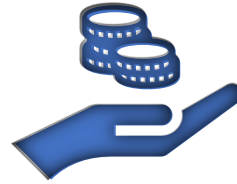
## Diversification

Manage the effects of single investment risk.



## Investing vs Saving

Investors trade value today for greater expected future value.



## Fees

Know your investment fees and expenses. Nothing is **free**!



## Set Goals

Write down **exactly** what you are trying to accomplish.



## Risk and Reward

All investments have risk. Even holding cash has inflation risk.



## Start Early

Compound growth most benefits younger investors.



The transfer of value today,  
in exchange for what an  
investor expects to have  
greater value in the future.

**Recap: Investing**



# *Class Discussion*

*What's a  
company you  
love?*





# *Class Discussion*

*If that company  
wanted to build  
more stores or  
create a new  
product, how  
could it get the  
money?*

# Two Broad Classifications of Investments

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

A **bond** is like lending money to your favorite pizza shop so they can buy a new oven. The pizza shop promises to pay you back later, plus a little extra as a 'thank you' for letting them borrow your money. 📄💰

1

## Fixed Income

Investing in  
what others owe –  
their liabilities

Example: **Bonds**

2

## Equity

Investing in  
others' net worth –  
their equity

Example: **Stocks**



# Recap: The Fundamental Financial Accounting Equation

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

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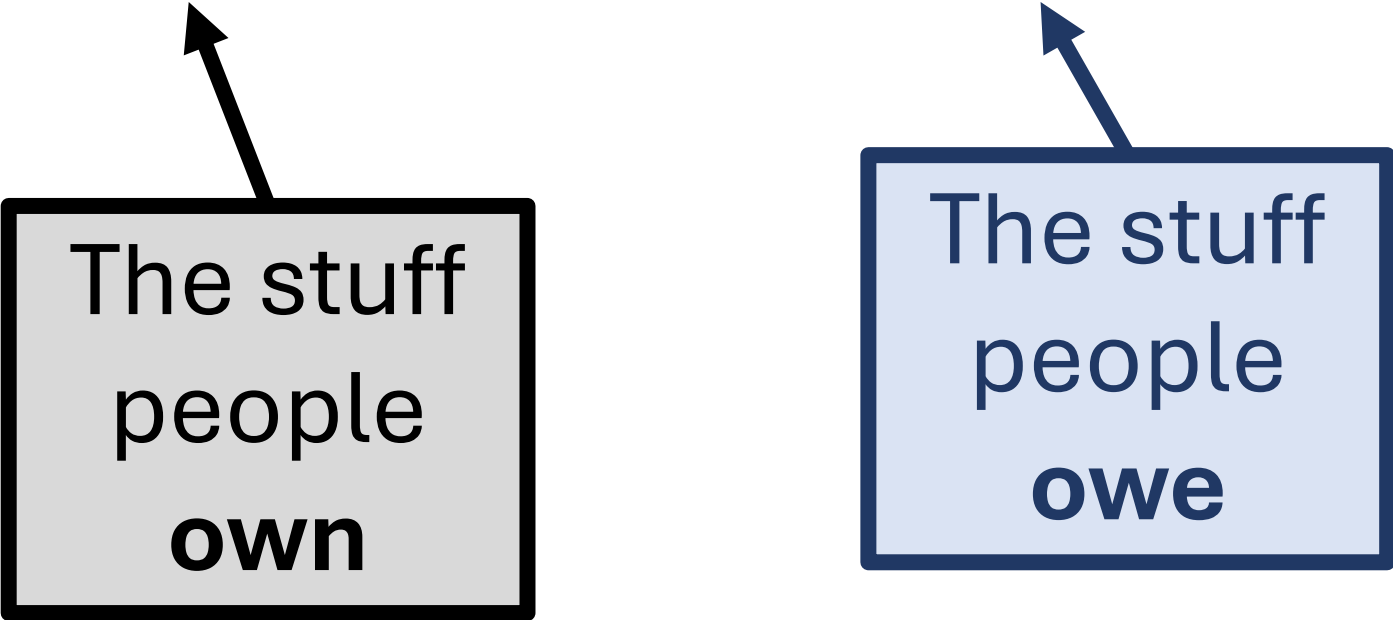


The stuff  
people  
own



# Recap: The Fundamental Financial Accounting Equation

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



The stuff  
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The stuff  
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# 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



# Recap: The Fundamental Financial Accounting Equation

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

When a person, company, or government wants to raise cash, one way is to borrow money – to **increase what they owe and “sell” the debt to investors**

Companies are unique because they can also raise cash by selling their “net worth” – **by selling equity to shareholders.**



## *Class Discussion*

*What are some reasons why a company want to “raise cash?”*



# Why Companies Might Raise Capital

Individuals and small businesses primarily rely on banks for loans. Larger companies often turn to capital markets to sell their debt or equity.



## **Capital Expenditures**

To invest in long-term physical assets like machinery or property



## **Expansion and Growth**

To finance the expansion of operations, entry into new markets, or increase in production



## **Obtain Working Capital**

To fund day-to-day operations and manage short-term financial obligations



## **Research and Development**

To invest in innovation and development of new products or technologies

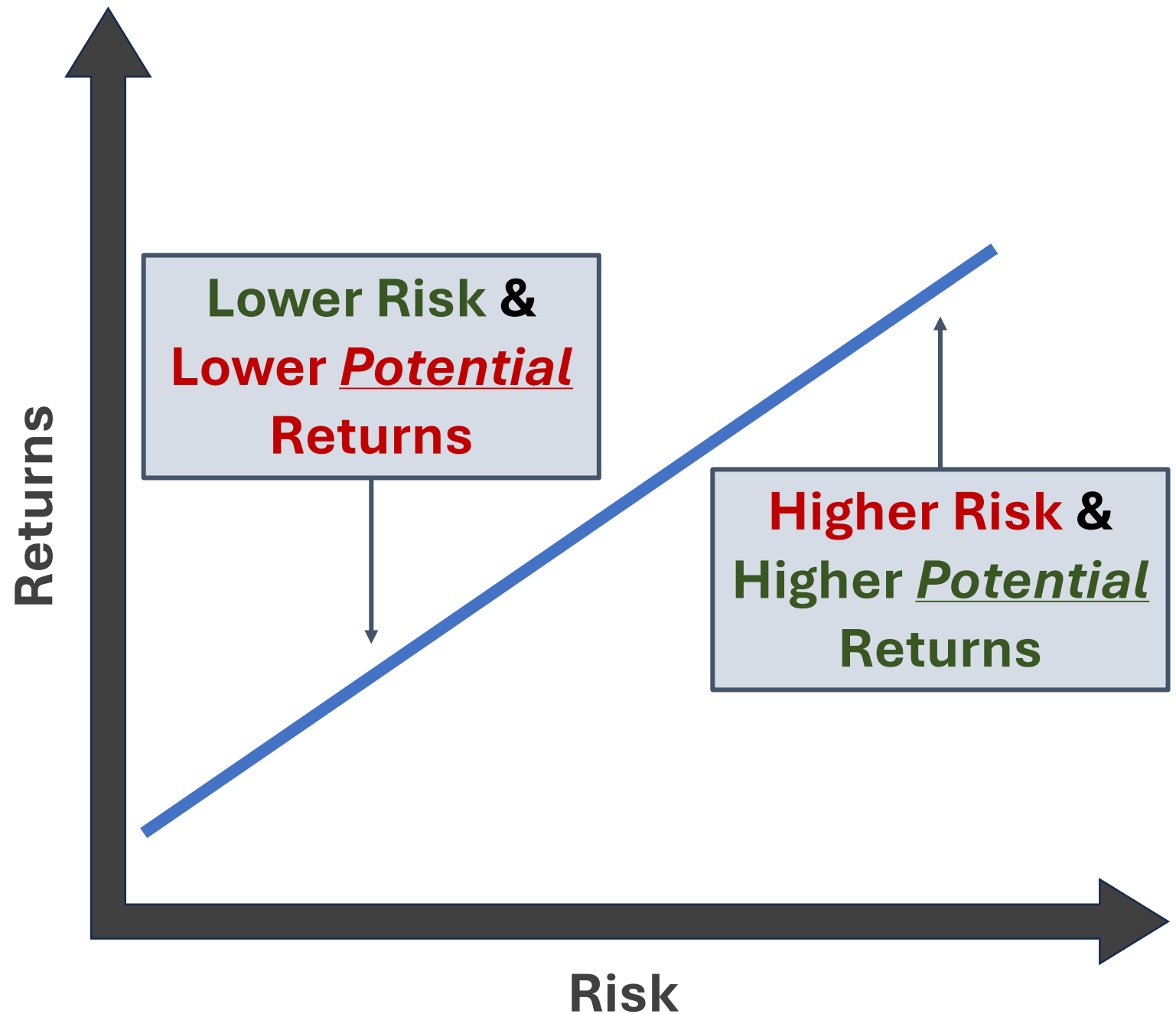
# Recap: Investment Risk & Return Tradeoffs

💡 All investments come with risk. The more risk you take, the higher the potential reward—but also the chance of losing money.

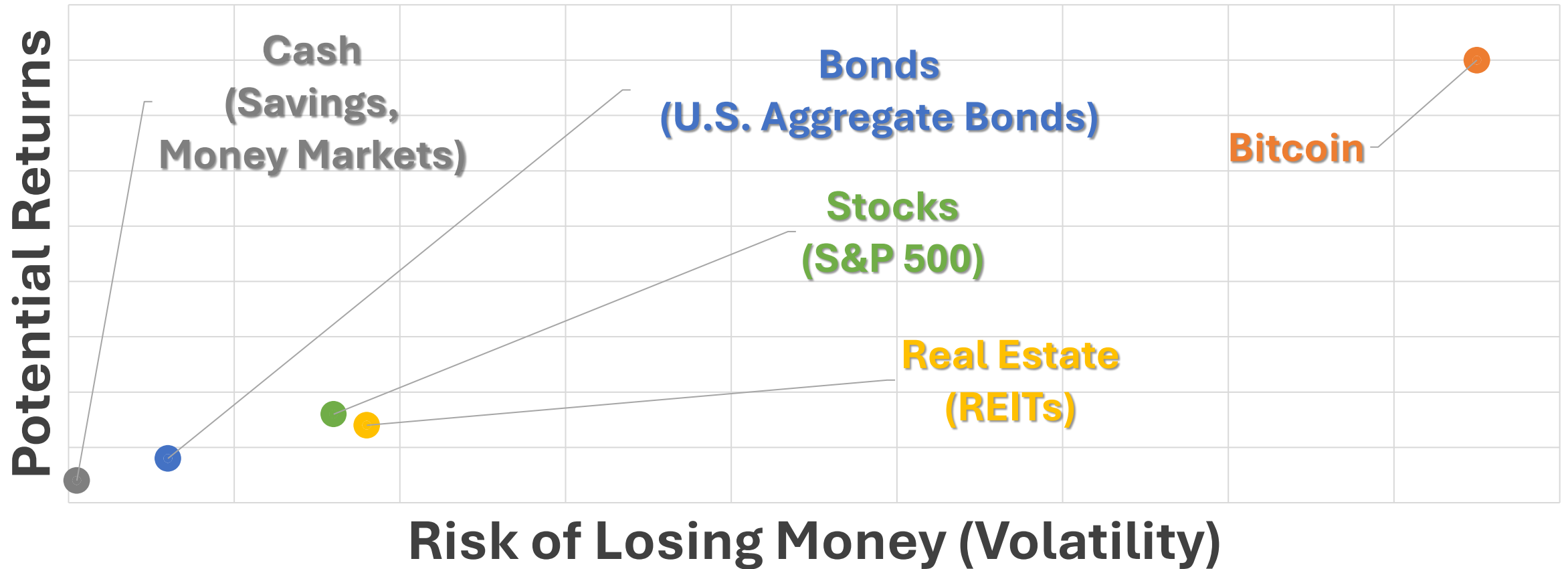
📈 Higher risk = higher potential returns

💰 Lower risk = lower return

This balance helps investors decide what to do with their money.



# Visualizing Investment Risk & Potential Returns Among Different Assets

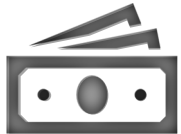


# Common Manageable Risks by Select Investment Types



Lower Risk &  
Lower Potential Long-Term Returns

Higher Risk &  
Higher Potential Long-Term Returns



## Cash

- ① Inflation Risk,
- ② Bank Solvency Risk



## Bonds

- ① Interest Rate Risk,
- ② Default Risk



## Real Estate

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



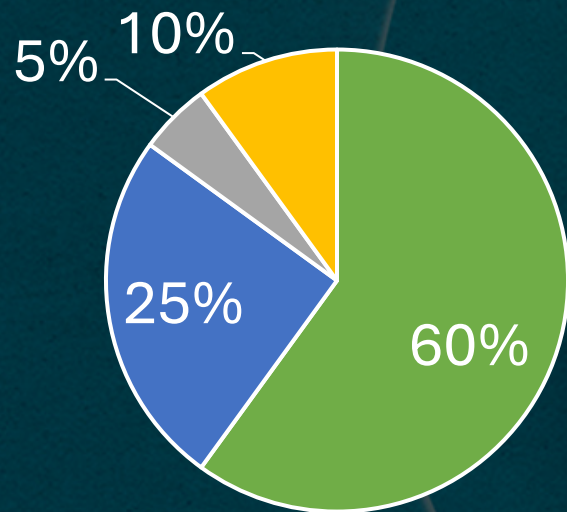
## Stocks

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

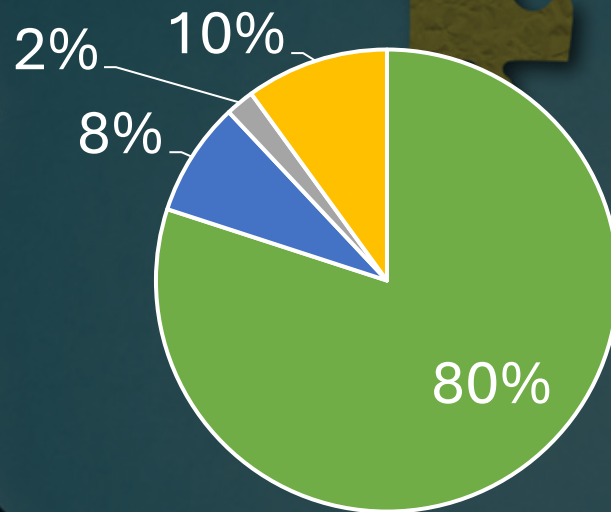


# Practical Application

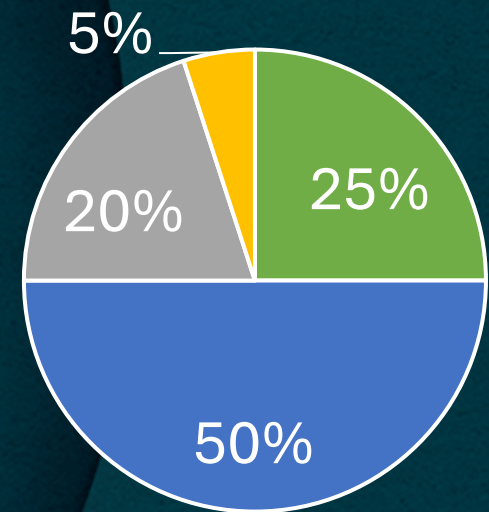
Evaluate the following portfolio allocations. Which do you think has the highest risk of losing money over a short-term period?



■ Stocks ■ Bonds  
■ Cash ■ Real Estate



■ Stocks ■ Bonds  
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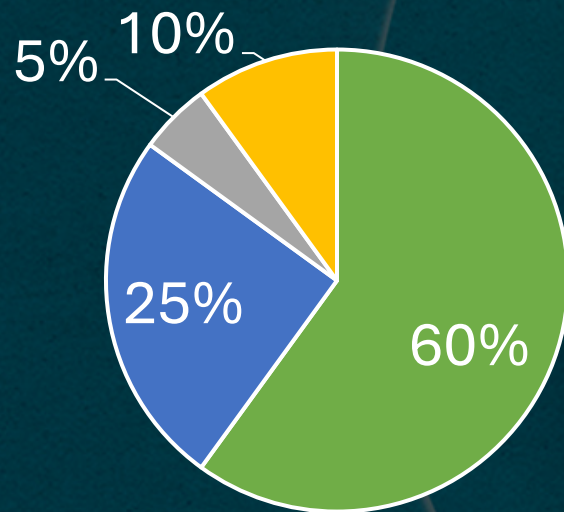


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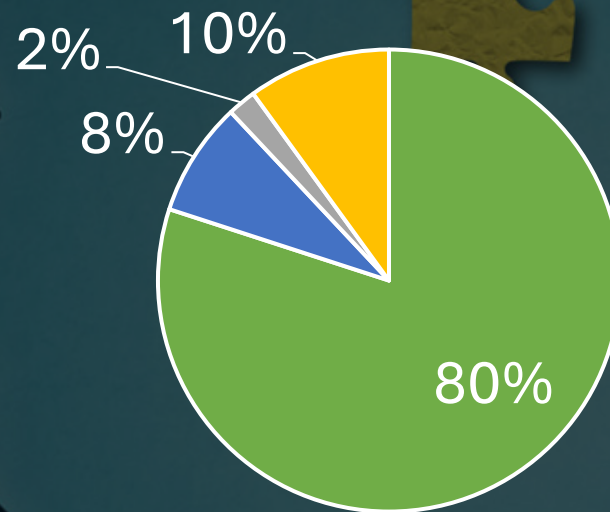


# Practical Application

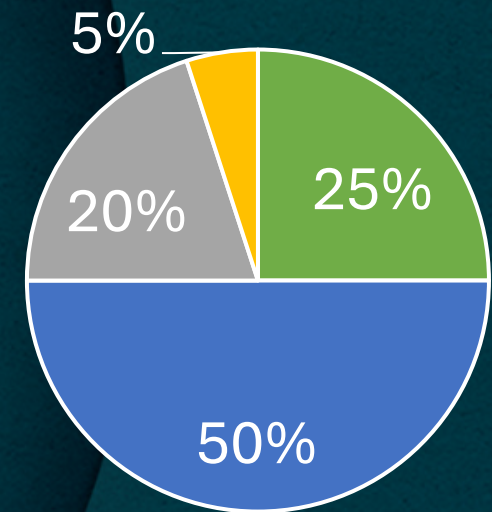
Evaluate the following portfolio allocations. Which do you think is most at risk to the effects of inflation over a long-term period?



Stocks Bonds  
Cash Real Estate



Stocks Bonds  
Cash Real Estate

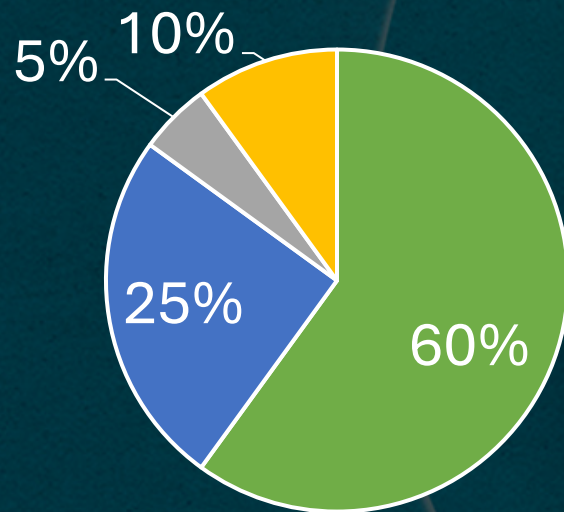


Stocks Bonds  
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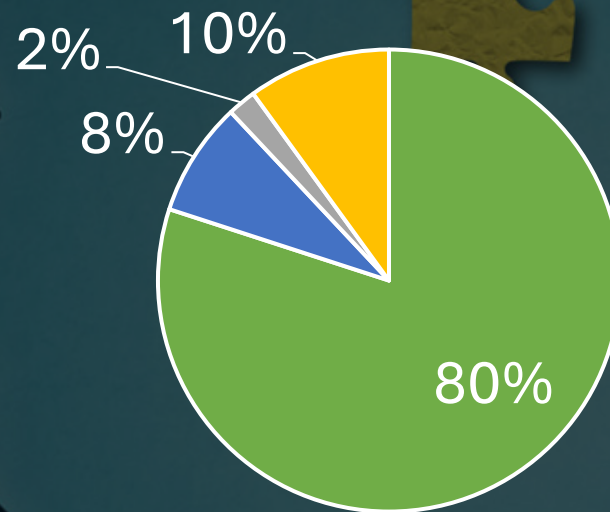


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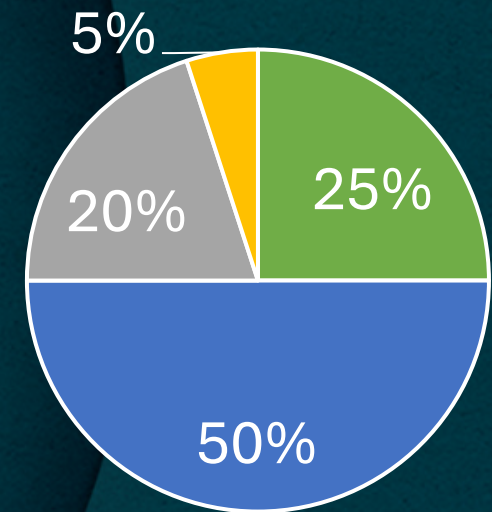
Evaluate the following portfolio allocations. Which do you think is likely to appreciate the most over a long-term period?



Stocks Bonds  
Cash Real Estate



Stocks Bonds  
Cash Real Estate

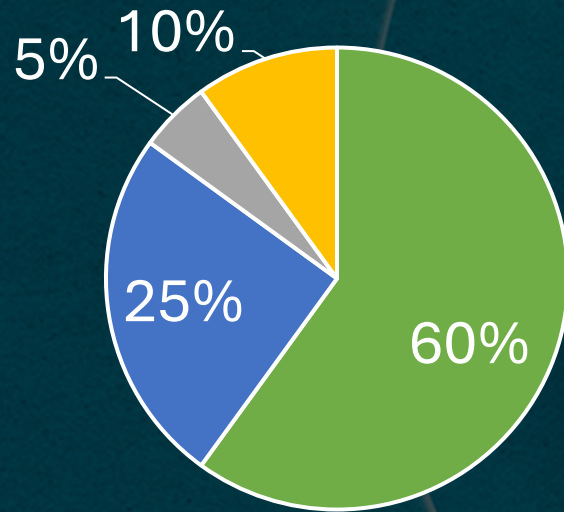


Stocks Bonds  
Cash Real Estate

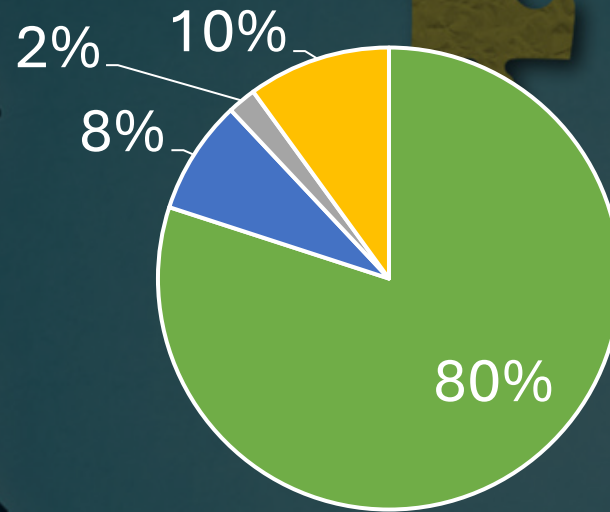


# Practical Application

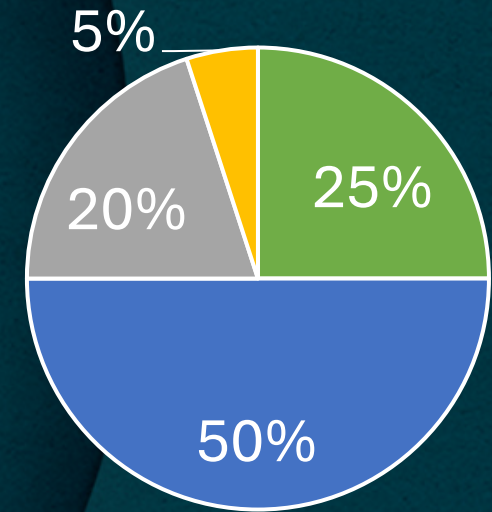
Evaluate the following portfolio allocations. Which do you think is most appropriate for a teenage investor?



Stocks Bonds  
Cash Real Estate



Stocks Bonds  
Cash Real Estate



Stocks Bonds  
Cash Real Estate





# Three Key Takeaways

- Stocks and bonds are the foundation of investing – Stocks offer ownership and growth potential; bonds provide stability and predictable returns.
- Companies raise money through stocks and bonds – Investors help businesses grow by buying stock (ownership) or lending money through bonds (debt).
- A strong portfolio balances investments based on goals – Different investors need different mixes of stocks, bonds, cash, and real estate to manage risk and grow wealth over time.



# 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](http://easypeasyfinance.com)) via Easy Peasy Finance



A collaborative workspace where several people are working on a business plan project. The scene is a top-down view of a wooden table covered with various documents, charts, and colorful sticky notes. In the background, a person's hands are visible, one holding a green sticky note and the other pointing at a document. Another person's hand is visible on the left, holding a pencil. The table is cluttered with papers, some featuring charts and graphs, and many sticky notes in shades of green, yellow, and pink. A yellow highlighter lies on the left side of the table. In the background, there are office supplies like a white mug, a black desk lamp, and a printer. The overall atmosphere is one of active collaboration and planning.

# Business Plan Project

# Business Idea & Business Plan Project within Money Mavericks Groups



## **Develop Business Idea**

What problem does your business solve? Who are the business's target customers? **[Completed]**



## **Write Business Plans**

How does the business earn money? What are the ongoing costs? How will it differentiate?



## **Present Your Business Plans**

Each Money Mavericks Group gives a 10-minute presentation of their business plan to class



# Money Mavericks

**Objective:** First, give your business a name – you can always change it later as your business plan develops. A good business plan demonstrates how a business idea will be a developed into successful company. Here are some questions to help you get started...





# Practical Application



## 1. Business Identity

- What is your business name?
- Design a logo for your business. *(Optional but encouraged!)*
- What is your business's mission? *(What problem does it solve? Why does it exist?)*
- What is your business's vision? *(Where do you see your business in the future?)*

## 2. Products & Services

- What products and/or services does your business offer?
- What makes your product or service valuable to customers? *(What problem does it solve or what needs or wants does it fulfill?)*

## 2. Products & Services (continued)

- How does your business earn money? *(Sales, subscriptions, services, etc.)*
- How much will you charge for your products or services? How did you decide on these prices?
- How many products or services do you need to sell to cover your costs? *(Break-even point)*

## 3. Target Market & Customers

- Who are your business's target customers? *(Age, interests, location, etc.)*
- Where will customers find your business? *(Online, in a store, at events, etc.)*



# Practical Application

## 4. Costs & Expenses

- What are the costs to start your business? (*Supplies, materials, website, etc.*)
- Where will your business's startup costs come from? (*Savings, investors, fundraising, etc.*)
- What are your business's ongoing expenses? (*Rent, supplies, marketing, employee wages, etc.*)

## 5. Competition & Differentiation

- Who are your main competitor(s)?
- What makes your business different from the competition?
- Why would customers choose your business over a competitor?

## 6. Marketing & Customer Engagement

- How will your business promote its products and/or services? (*Social media, flyers, ads, word of mouth, etc.*)
- How will you attract new customers and keep them coming back? (*Special deals, loyalty programs, great customer service, etc.*)

## 7. Team & Responsibilities

- Who are the members of your business team?
- What roles and responsibilities will each team member have? (*Who is in charge of marketing, finances, operations, etc.?*)



# Practical Application

A large, dark blue silhouette of a human head in profile, facing left. Inside the head, three golden-yellow puzzle pieces are arranged in a triangular pattern, symbolizing the assembly of ideas or the practical application of knowledge.

## 8. Challenges & Risks

- What are some possible challenges your business might face? (*Competition, cost overruns, customer interest, etc.*)
- How will your business overcome these challenges? (*Backup plans, strategies, adjustments, etc.*)

## 9. Business Pitch

- Write a short “elevator pitch” that describes your business to potential customers. (*This should be a persuasive and engaging summary.*)



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Empowering Young Minds to  
Understand Money

Financial Literacy with  
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