

Financial Literacy with Mr. 401(k)
[‘FinLit with Mr. 401(k)’]
Winter Term 2023-2024
February 5, 2024

Investments Class 23: Introduction to Investing Part I



Monday Money Matter\$

Federal Reserve Chair Jerome Powell, in a 60 Minutes interview, conveyed optimism about the U.S. economy, with a focus on strong growth, a robust labor market, and inflation's decline towards the 2% target. Powell highlighted the Fed's cautious approach to interest rate adjustments, balancing the risks of acting too soon against waiting too long. Powell also addressed the impact of global geopolitical risks and pandemic-induced economic changes, emphasizing the Fed's decisions are made without political influence.

Reference Date: Interview date February 1, 2024; Aired February 4, 2024

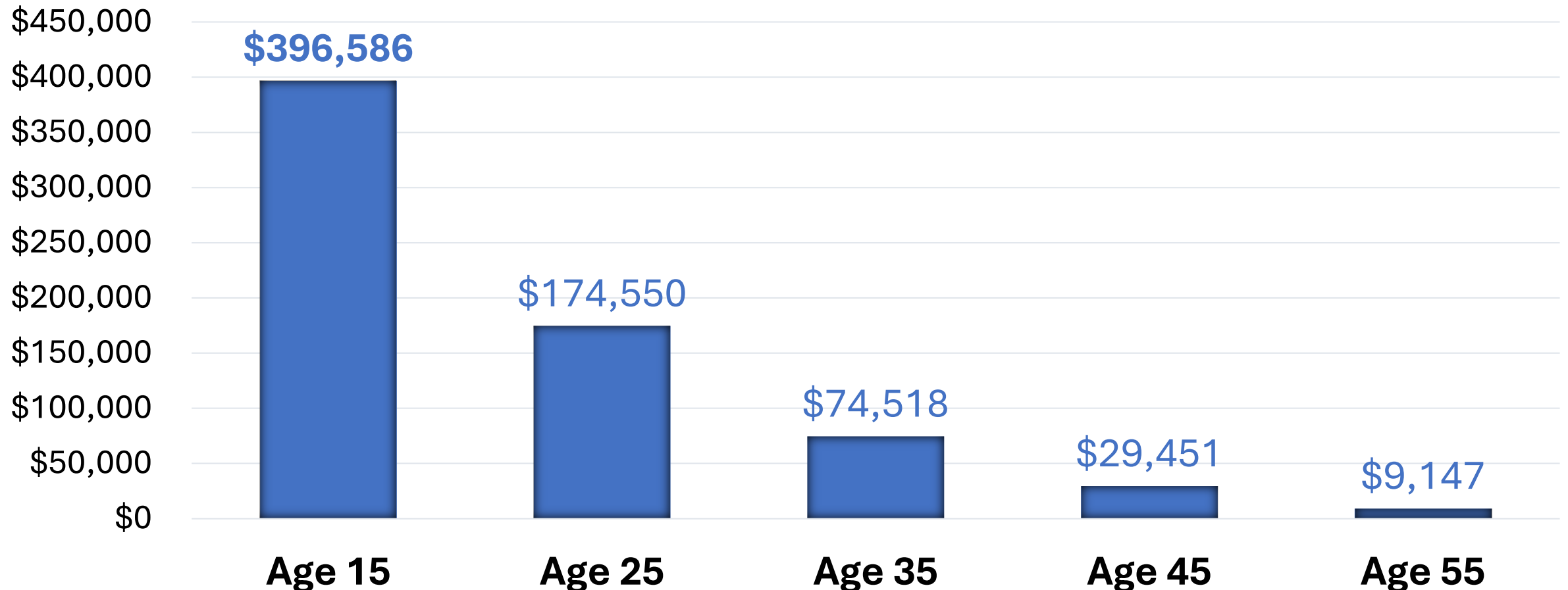
Source: <https://www.cbsnews.com/news/full-transcript-fed-chair-jerome-powell-60-minutes-interview-economy/>

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

Investing

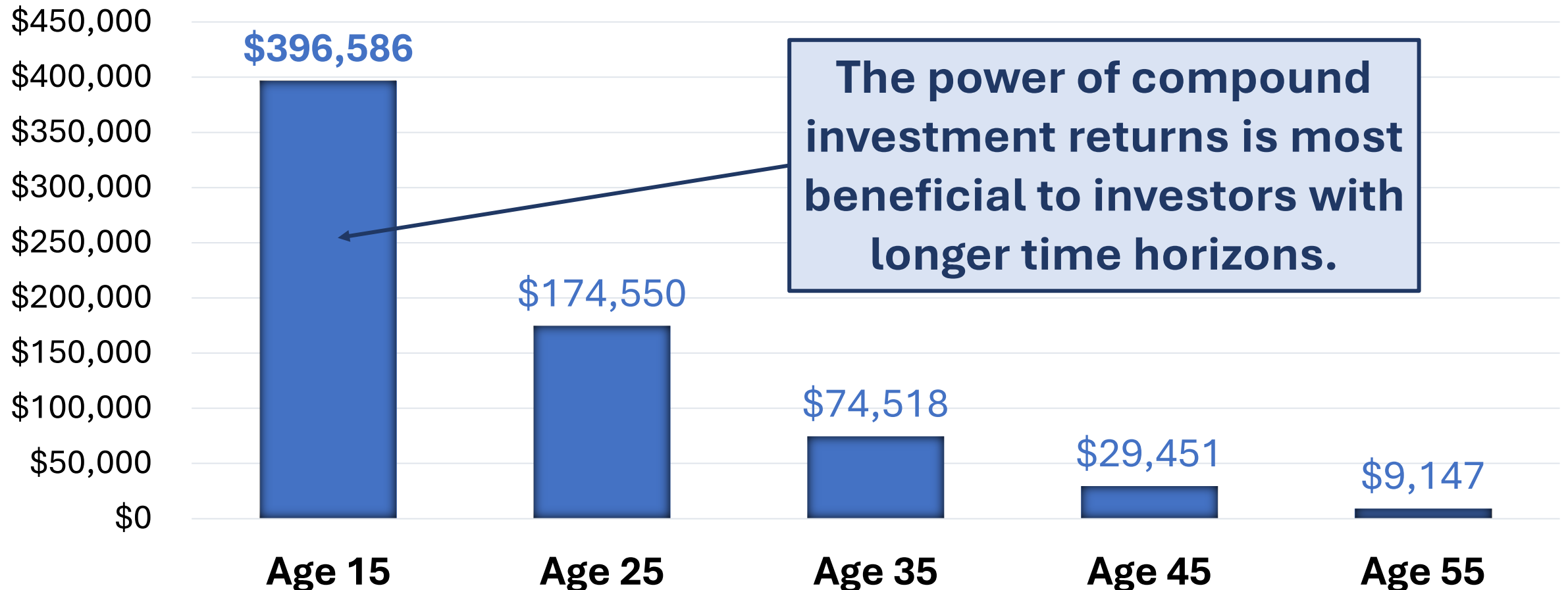
Young People Have Investing Advantages

Invest **\$50 per month**, starting at various ages **until age 65** in a portfolio earning **8% annual investment returns**, compounded monthly.



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Class Discussion

*Do you think
investing has
risk?*



Class Discussion

What do you think might be some of the risks of investing?

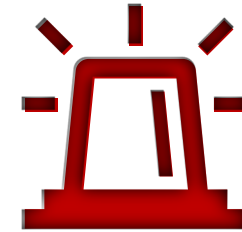
Two Categories of Investment Risks



Manageable Risk (Idiosyncratic or Unsystematic risk)

Risks related to an individual investment or very specific group of investments.

Example: A major toy retailer goes bankrupt due to excessive debt and online retail competition.



Unmanageable Risk (Systematic or Market Risk)

Risks inherent to the entire market – relating to all investments or several groups of investments.

Example: A global pandemic shuts down the economy, causing a widespread sell-off in all asset classes.



Class Discussion

*What might be
one way to
manage risks
related to an
individual
investment?*

A risk management strategy that mixes a variety of investments within a portfolio. A diversified portfolio contains a mix of asset types, securities, and investment vehicles, which reduces effects single asset risks.

Diversification



Class Discussion

Since investing carries the risk of losing money, then is it still important for people to invest?

Importance of Investing



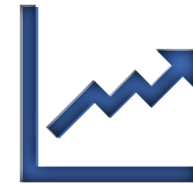
Inflation Erodes Purchasing Power

We learned from the time value of money that inflation causes money to lose value over time. People need to grow incomes faster than inflation to expand their purchasing power.



Life Event Planning

Investing enables people to plan for and finance major life events like paying for college, purchase a vehicle, purchase a home, start a business, start a family, plan for retirement, etc.

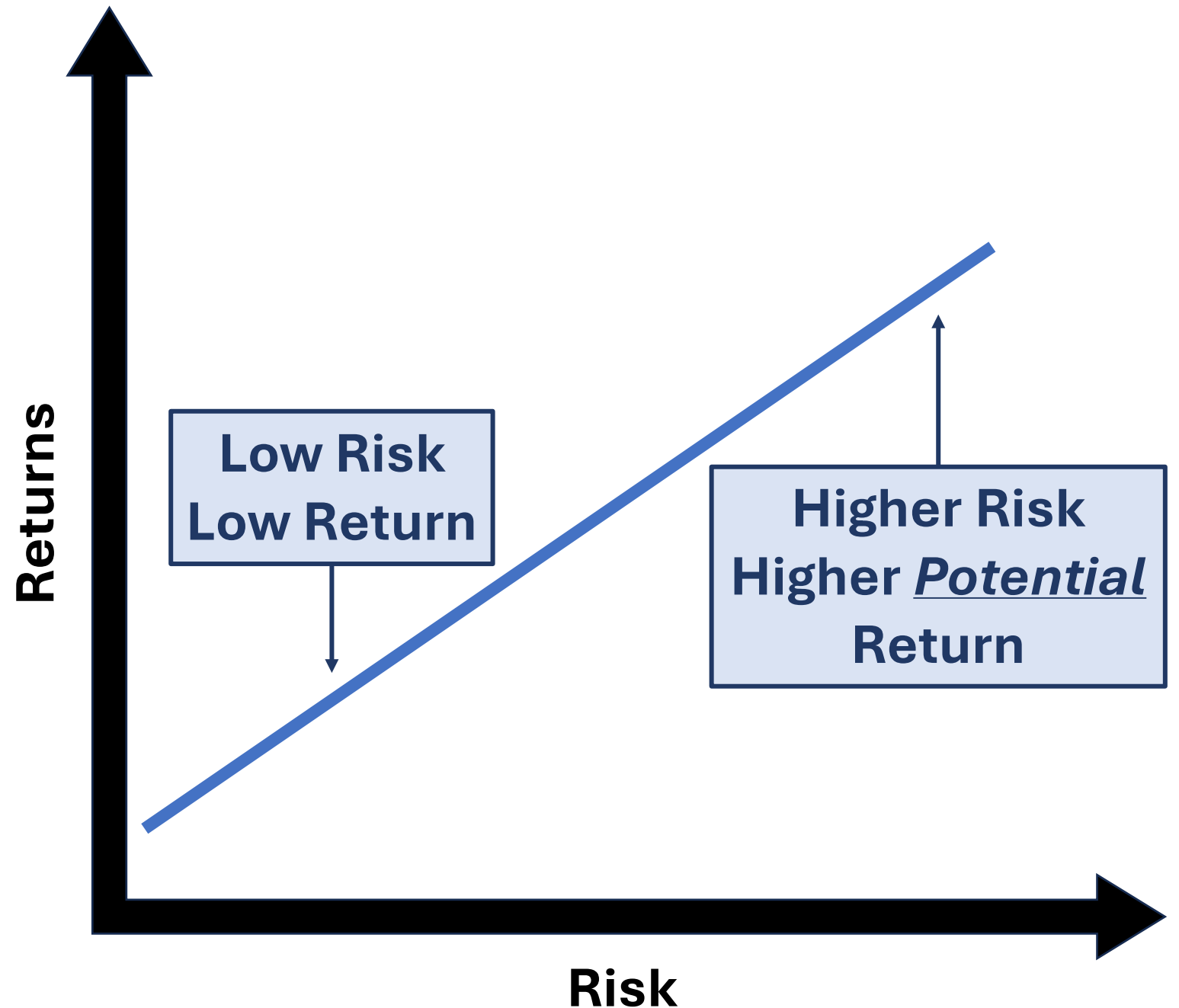


Wealth Accumulation

Investing can create a more secure financial future through asset appreciation, passive income, and portfolio income. If passive income > expenses, then work becomes optional.

Investment Risk & Return Tradeoffs

All investments carry the risks of losing money. Investors who take more risk expect higher investment returns. Otherwise, why take on the additional risk of losing money? This risk/return tradeoff drives investment decisions.





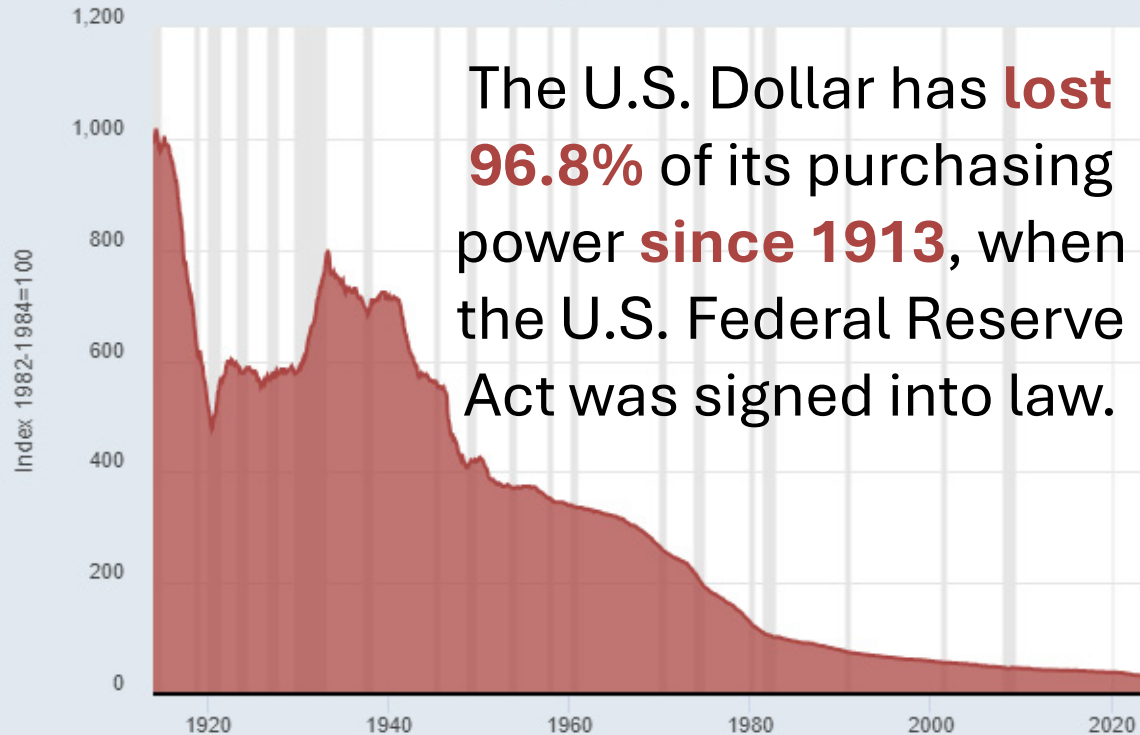
Class Discussion

*What might be
a potential
problem of not
taking enough
investment risk?*

Recap: How does inflation affect us?

The purchasing power of our money erodes over time.

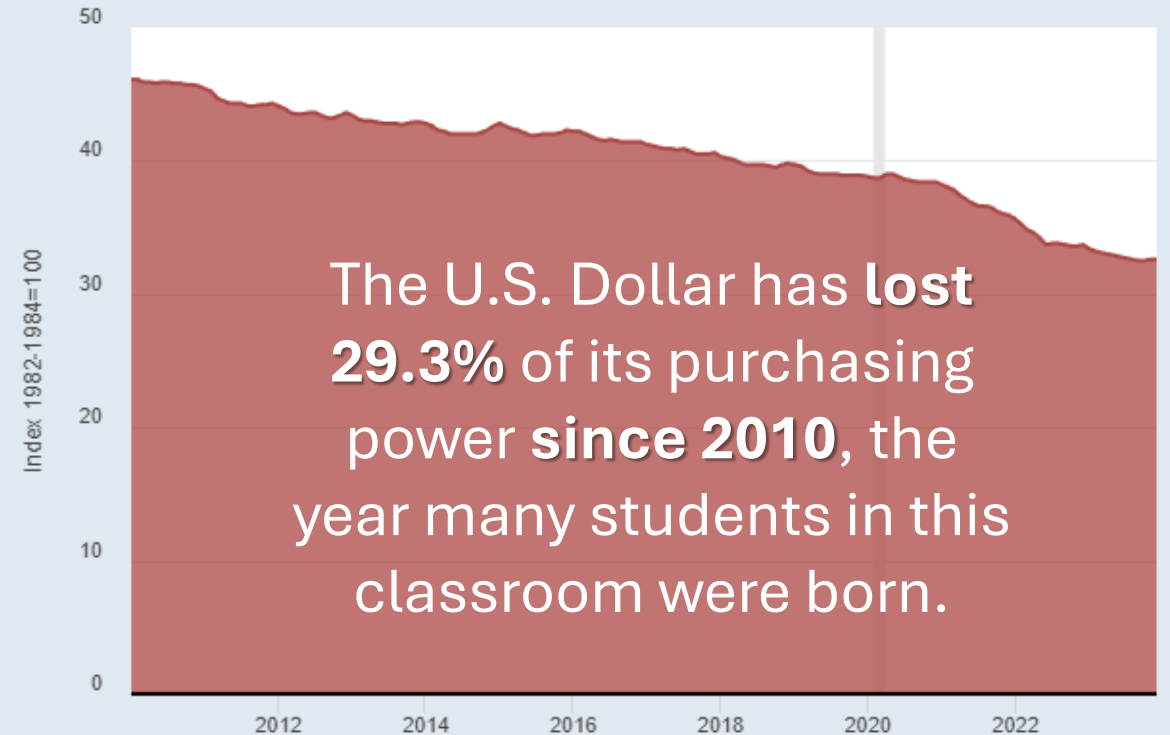
FRED ● Consumer Price Index for All Urban Consumers: Purchasing Power of the Consumer Dollar in U.S. City Average



The U.S. Dollar has **lost 96.8%** of its purchasing power **since 1913**, when the U.S. Federal Reserve Act was signed into law.

Source: U.S. Bureau of Labor Statistics

FRED ● Consumer Price Index for All Urban Consumers: Purchasing Power of the Consumer Dollar in U.S. City Average



The U.S. Dollar has **lost 29.3%** of its purchasing power **since 2010**, the year many students in this classroom were born.

Source: U.S. Bureau of Labor Statistics

Two Broad Categories of Investments

1

Fixed Income

Investing in
what others owe –
their liabilities

Example: **Bonds**

2

Equity

Investing in
others' net worth –
their equity

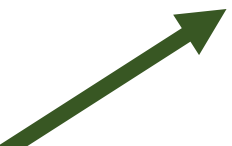
Example: **Stocks**

Recap: The Fundamental Financial Accounting Equation

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

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

**“...all you are doing
in investing is
transferring some
money to somebody
now in exchange for
what you expect the
stream of money to
be...”**

– Warren Buffett





To Be Continued...