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| **TEXAS CTE LESSON PLAN**[www.txcte.org](http://www.txcte.org) |
| **Lesson Identification and TEKS Addressed** |
| **Career Cluster** | Finance |
| **Course Name** | Securities and Investments  |
| **Lesson/Unit Title** | Risky Business |
| **TEKS Student Expectations** | **130.184. (c) Knowledge and Skills**(3) The student describes investment analysis and selection processes.(A) The student is expected to describe types of investment objectives(B) The student is expected to consider the nature of investment risk(C) The student is expected to analyze diversification strategies(D) The student is expected to understand factors to consider when selecting investment |
| **Basic Direct Teach Lesson**(Includes Special Education Modifications/Accommodations and one English Language Proficiency Standards (ELPS) Strategy) |
| **Instructional Objectives** | **Performance Objective**Students will understand and analyze the relationship between risk and return.**Specific Objective*** Identify the components of the risk pyramid
* Apply the concept of risk when selecting investments
* Understand the different types of risk that can affect investing decisions
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| **Rationale** | The main purposes of this lesson are to help students understand the importance of understanding the risk involved when an investor is trying to make his money work for him in the future, and their own tolerance for risk and what they can do to protect themselves from risk in the future |
| **Duration of Lesson** | 4-5 class periods |
| **Word Wall/Key Vocabulary***(ELPS c1a,c,f; c2b; c3a,b,d; c4c; c5b) PDAS II(5)* | * Risk‐the potential for loss
* Return‐the actual gain or loss of an investment
* Risk pyramid‐a visual way of representing how assets are allocated (grouped) according to how risky they are
* Risk tolerance‐the degree of the amount of uncertainty that a person can take; it depends a great deal upon life events and stages
* Financial risk‐the potential for loss of a financial investment
* Interest rate risk‐usually affects fixed‐rate securities like bonds; the possibility that the investment will lose value if interest rates rise and your investment has a lower fixed rate
* Business risk‐possibility that the company itself (that sells stock or issues bonds) may go out of business
* Market risk‐a risk that can affect the market as a whole as opposed to a specific investment; it can affect mutual funds more because they consist of a group of investments pooled together
* Political risk‐the risk of government events that can affect the value of securities
* Exchange rate risk‐the risk of the value of currencies here or in other countries changing which can affect the value of the securities as well
* Liquidity risk‐the possibility that your investment will not be able to be converted to cash when you need it
* Inflation risk‐the possibility that the rate of inflation can be higher than your investment’s rate of return
* Diversification‐spreading out your money into different types of investments; it is designed to protect against risk
* Portfolio‐a combination or group of different types of securities; ideally protects against risk as many investments can be safer and absorb more ups and downs than only one investment
* Savings account‐a depository account held at a financial institution that may pay interest; usually there is a fee for writing checks or withdrawing money
* Money market account‐similar to savings accounts but usually require a higher minimum balance in exchange for a higher interest rate
* Certificate of deposit‐an interest‐bearing account that has a specific maturity date; withdrawals can only be made with a penalty
* Stock‐represents a share of ownership in a corporation; companies issue stock to raise money
* Bonds‐an investor can buy a bond, which is issued by a government entity or corporation as a loan where the issuer agrees to pay the money back with interest
* Commodities‐also referred to as “futures”; goods that can be traded on exchanges such as gold, oil, and natural gas
* Mutual funds‐a portfolio of investments managed by a professional; shares can be purchased individually
* Liquidity‐how easily an investment can be converted to cash
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| **Materials/Specialized Equipment Needed** | **Instructional Aids*** Lesson Presentation
* Instructor Computer/Projection Unit
* Online Websites
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| **Anticipatory Set**(May include pre-assessment for prior knowledge) | **Ask** students if they received $1,000 right now whether they would put it in the bank, spend it, invest instocks, or buy lottery tickets.**Ask** students if they are familiar with what a risk pyramid is or why it may be of value to investors. |
| **Direct Instruction \*** |  Ask students what would happen if they did not have insurance on their car and they had an accident. Ask them what could happen if they broke a bone and had to go to the hospital and they did not have insurance. Risk affects every aspect of our lives and many choices we make. 1. Important risk questions (Risk also affects our financial decisions. Although there is no insurance to protect us against financial risk knowledge of our goals and the risk level of certain types of investments can protect us, to some extent. Review the risk pyramid in detail with students using the Basics of Saving and Investing 2020 website as mentioned in the Guided Practice section. Using the presentation, discuss the various stages of life of how some investors generally feel about risk at these different stages. Explain also, using the Basics of Saving and Investing 2020 website how ‘when’ they begin investing is as important, if not more important, than ‘how much’ they save or invest.)
	1. What is risk?
		1. Possibility of loss
	2. How is risk measured?
		1. In dollars or percentages
	3. How do I avoid risk?
		1. No guarantees but diversification can reduce it
2. Calculating Investment Return (examples in presentation)
3. Risk/Return Relationship
	1. Direct relationship
	2. As risk increases, return increases
	3. The lower the risk, the lower the return
4. Risk tolerance
	1. Risk averse – avoid risk if possible
	2. Risk seeking – look for risky investments
	3. Neutral – risk not considered
5. Types of Risk
	1. Liquidity
	2. Market
	3. Business
	4. Inflation
	5. Interest rate
	6. Exchange rate
	7. political
6. Diversification
	1. Investing in several types of securities as opposed to only a single investment
	2. Also called asset allocation
	3. Theory that pooling of assets can be safer than only one asset
	4. Example‐investing in a mutual fund as opposed to a single company’s stock
7. Risk Pyramid
	1. Displays investments of different asset types
	2. Shows degree of risk
	3. Less risky at the bottom
	4. Riskier at the top
8. Lower‐Risk Investments
	1. U.S. Savings Bonds
	2. Checking/savings
	3. Certificates of Deposit
	4. Money Market Accounts
	5. Diversified mutual funds
	6. High credit‐rating corporate bonds
9. Medium-Risk Investments
	1. Preferred stock
	2. High Quality Stocks
	3. Large-cap Stocks
	4. Growth Stocks
10. High-Risk Investments
	1. Small and mid-cap stocks
	2. Mutual funds in the same industry
	3. Futures, commodities, collectibles
11. After explaining the definitions of the most common investments using the pyramid, place either a poster of each investment (with the definition to remind students) or sticky flip‐chart paper on the walls around the room. Ask students to stand by the investment they would choose if they were given $100 to invest. Then ask students if they were given $10,000 to stand by their preferable investment. Will students stand in the same place that they did for the $100? Some students may ask if they can be in two places at once. This is a good time to introduce the concept of diversification and its role in reducing risk.
12. Be sure to relate the different risk levels of securities to the different life stages and risk tolerance levels of investors. Show students how to look at bank websites for interest rates or searching large‐, mid‐, and small‐cap stocks
13. Look at the three or five‐year charts for some of these stocks and see if they appear more stable or volatile
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| **Guided Practice \*** | * Ask students: if a burglar were to break into a house, where is the first place he would look for money or valuables? They would probably say “in a drawer, closet, or under a mattress”. How safe is the money in those locations? Explain the levels of risk in saving money in a house as opposed to saving it elsewhere such as a bank.
* Explain the concept of the Risk Pyramid. Hand out blank pyramids to students and have them follow as you complete the pyramid with them, explaining that the bottom of the pyramid represents the least risky investments and the riskiest investments are at the top of the pyramid. The pyramid is found in the *Basics of* *Saving and Investing 2020* page 1.18 and 1.19 (blank for students).
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| **Independent Practice/Laboratory Experience/Differentiated Activities \*** | * Have students create a flip book with all of the vocabulary related to this lesson. Ask them to include a visual or examples for each term.
* Have students complete the Risk Tolerance Quiz located on the Rutgers University website. Record on the board or document camera the students’ results to the quiz to see how tolerant the class is as a whole.
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| **Lesson Closure** | **Review**These questions can be given in the form of a quiz or as exit tickets over several class periods.**Question #1:** What is risk?**Answer #1:** Risk is the possibility of loss of all or part of a financial investment.**Question #2:** What is the relationship between risk and return?**Answer #2:** As risk increases, the return increases also.**Question #3:** Why is risk tolerance important?**Answer #3:** Knowing the amount of risk you are willing to assume can determine what type of investments you may be willing to make, in addition to knowing that this tolerance may change over your life cycles.**Question #4:** What is liquidity risk and why is it important?**Answer #4:** Liquidity risk is the chance that your investment may not be easily converted to cash when you need it. For example, if you need cash for an emergency and you have invested your money in real estate, it may take a while to sell the asset and receive the cash, and the value may also have decreased during the time you held the asset.**Question #5:** Why do I need to know about a risk pyramid?**Answer #5:** By knowing about a risk pyramid, someone else has done the general research that can act as a guide to which investments are less risky and may earn lower returns and which are riskier and therefore can earn potentially higher returns. |
| **Summative / End of Lesson Assessment \***  | **Informal Assessment**Any and all of the following can be used as informal assessments :* Completion of the flipbook for vocabulary
* Completion of the “Risk Tolerance Quiz” to determine their own level of tolerance

**Formal Assessment*** **Risk/Return Line Graph Assignment #1** – Following the example of the risk pyramid students learned about inthis lesson, they are to create a line graph showing the direct risk/return relationship between at least five different investments. Axes should be labeled.
* **Your Own Portfolio Assignment #2** – Students will put together their own portfolio using the different types ofinvestments discussed in this lesson. They are to virtually invest $5,000 for a six‐month period and include at least three different investments according to their own level of risk tolerance. For example, if they want safe investments, they can calculate their return using savings account rates, certificate of deposit rates, and money market accounts. They are to specify how much of their $5,000 will go into which investments and determine how much money they will have at the end of six months. Students may display your results in any manner you choose, but it should look professional.
* **Millionaire Quiz Trivia Risk Tolerance Assignment #3** – Give students the attached handout for the MillionaireQuiz Trivia. According to the directions, students are to write in pen, not pencil, and answer trivia questions. As each question is asked, they are to indicate whether or not they will go ‘double or nothing’ (if they are very sure of their answer) on their answer, meaning they can get zero, five, or ten points for each question. Each question is worth five points so if they get one correct, it is five points. If it is incorrect, it is zero points. If they went ‘double or nothing’ and they are right, it is ten points. If it was incorrect, they get zero points. After the ten questions are completed and the students tally their scores, they will write a conclusion regarding their risk tolerance level and if it paid off or not.

**Accommodations for Learning Differences:**It is important that lessons accommodate the needs of every learner. These lessons may be modified to accommodate your students with learning differences by referring to the files found on the Special Populations page of this website.    |
| **References/Resources/****Teacher Preparation** |  |
| **Additional Required Components** |
| **English Language Proficiency Standards (ELPS) Strategies** |  |
| **College and Career Readiness Connection[[1]](#footnote-1)** |  |
| **Recommended Strategies** |
| **Reading Strategies** |  |
| **Quotes** |  |
| **Multimedia/Visual Strategy****Presentation Slides + One Additional Technology Connection** |  |
| **Graphic Organizers/Handout** |  |
| **Writing Strategies****Journal Entries + 1 Additional Writing Strategy** |  |
| **Communication****90 Second Speech Topics** |  |
| **Other Essential Lesson Components** |
| **Enrichment Activity**(e.g., homework assignment) | Interview an investment professional and ask him or her what they advise their clients regarding risk. Obtain any information you can such as brochures or pamphlets and bring them back to class. Provide the class with a short summary of the advisers’ risk recommendations. |
| **Family/Community Connection** |  |
| **CTSO connection(s)** | FBLA, BPA |
| **Service Learning Projects** |  |
| **Lesson Notes** |  |

1. Visit the Texas College and Career Readiness Standards at <http://www.thecb.state.tx.us/collegereadiness/CRS.pdf>, Texas Higher Education Coordinating Board (THECB), 2009. [↑](#footnote-ref-1)