Investment Analysis - Unit 1 - Risk vs Reward

Unit Focus

In this first unit of study students will dive into the various options an investor has to choose from, with focus on mutual funds, ETFs, and Index funds. Students will be able to analyze a potential mutual fund, ETF, or other type of investment in order to assess the risk level of the investment and ultimately make a recommendation of what to invest in. Students will learn about the importance of investing and the time value of money, different statistical measures to assess risk. For the PBA students will ultimately create a portfolio for a client that meets their needs balancing their risk tolerance with their life stage.

Stage 1: Desired Results - Key Understandings

Standard(s)

National Standards for Personal Financial Education (2021)
Personal Finance: 9-12

- Discuss how a person's risk tolerance influences their investment decisions. (12-1b)
- Assess their personal risk tolerance using an online tool or worksheet. (12-1c)
- Explain why assets that do not produce income or are exposed to large price fluctuation (such as collectibles, precious metals, and cryptocurrencies) are described as speculative investments. (12-2c)
- Discuss the advantages and disadvantages of investing in riskier assets. (12-3a.)
- Investigate the long-run average rates of returns on small-company stocks, large-company stocks, corporate bonds, and Treasury bonds. (12-3b)
- Describe factors that influence the prices of financial assets. (12-5a.)
- Recommend portfolio allocation between major asset classes for a short-term goal versus a long-term goal. (12-6a)
- Suggest an appropriate asset allocation for a very risk averse person versus a very risk tolerant person. (12-6c.)
- Explain how target date retirement funds reallocate investments over time to meet their investment objective. (12-6d)
- Compare the expense ratios for several mutual funds. (12-7b)
- Explain why an actively managed mutual fund usually has a higher expense ratio than an index fund. (12-7c.)
- Explain why investors often compare portfolio performance to a benchmark such as the S&P 500 Index (12-13a)
- Discuss the advantages of investing in an exchange-traded fund (ETF) that tracks a market index rather than investing in actively managed mutual funds or individual stocks and bonds. (12-13c)

Transfer

Students will be able to independently use their learning to...
T1 Demonstrate fiscal responsibility through examination of needs and wants, development of short and long term plans, and/or conservation of limited resources.

Meaning

Understanding(s)

Students will understand that...
U1 Understanding the risk vs reward can make an investor successful; in order to obtain higher returns one must generally take a higher risk.
U2 One way to minimize risk is to hold a portfolio of many different investments, and diversifying your portfolio in order to minimize the volatility that exists within the investment market.
U3 The key variable in investing is time, an investor must be patient and take a long term approach over their lifetime in order to accumulate wealth.
U4 Different types of investments (stocks, bonds, mutual funds, real estate, etc.) have distinct characteristics and purposes. Understanding these helps investors build portfolios that align with their goals and risk profiles.

Essential Question(s)

Students will keep considering...
Q1 How can I balance risk and return to create a balanced portfolio that will accumulate wealth over time?
Q2 How do I choose investments when considering factors like my risk tolerance and financial goals while analyzing the market conditions?
Q3 How do individual factors like age, risk tolerance, goals and knowledge affect someone's investment choices?
Q4 How do I assess an investment for potential long-term growth?

Stage 1: Desired Results - Key Understandings

Madison Public Schools Profile of a Graduate	**Acquisition of Knowledge and Skill**	
	Knowledge	**Skill(s)**
• Analyzing: Examining information/data/ evidence from multiple sources to identify possible underlying assumptions, patterns, and relationships in order to make inferences. (POG.1.2) • Design: Engaging in a process to refine a product for an intended audience and purpose. (POG.2.2)	*Students will know...* **K1** TVM Calculations: FV, PV, PMT, NPER, Rule of 72 **K2** Investments: Mutual Funds, ETFs, Stocks, Bonds, Cash **K3** Risk-adjusted return metrics: Sharpe, Alpha, Beta, Standard deviation, R2 **K4** Portfolio Composition strategies: Golden butterfly, Rule of 110, Risk and life cycle	*Students will be skilled at...* **S1** Using a spreadsheet students will be able to solve financial problems related to the time value of money. **S2** Analyze the holdings of a mutual fund or ETF in order to communicate what the fund's performance strategy is and how that affects the risk vs returns. **S3** Measure the volatility of an investment using statistical measures (Sharpe, alpha, beta, standard deviation, R^2 **S4** Construct a portfolio given a person's risk tolerance, age, and goals.