Buy, Sell or Hold?: An Overview of Investing

LESSON 21: TEACHER'S GUIDE

Most of us take financial gambles every day. For example, we might hold off on purchasing a new video game or smart phone in hopes that the price will go down. But when it comes to investments, gambling without knowing all available information can be costly. In this lesson, students will analyze risks and rewards in investments and discuss factors that impact return on investments. Students will learn about buying and selling stocks, and related consumer protection laws.

Topic: Investing and Wealth Accumulation

Time Required: 70 minutes

SUPPLIES:

- Computers or tablets
- Internet access
- Projector
- Student activity sheets (2)
- Notebooks

PREPARATION:

- Copy student activity sheets

STUDENT ACTIVITY SHEETS:

Know When to Hold 'Em
In this activity, students will learn the concepts of buying, selling, holding and trading investments.

Stock Up
Students will learn how to read a stock table.

LEARNING OBJECTIVES:

Students will...

- Learn basic stock market concepts and terminology
- Explore factors that impact returns on investments
- Understand how the government protects investors

STANDARDS:

Jump$tart Standards:

- Savings Standards 4, 5 and 6
- Financial Responsibility Standard 3

National Standards for Economics:

- Standard 11: Money and Inflation

Common Core ELA Anchor Standards:

- Reading: Integration of Knowledge and Ideas
- Language: Vocabulary Acquisition and Use

Common Core Math Standards:

- Number and Quantity: Quantities
- Modeling
- Statistics and Probability: Interpreting Categorical and Quantitative Data

Essential Question | ***"How do investing and the stock market work?"***

Investigate: Buy, Sell, or Trade?

[Time Required: 10 minutes]

1. Open the class by distributing the activity sheet ***Know When to Hold 'Em***. Give students ten minutes to read the scenarios and determine what they believe the "seller" should do.
2. Invite volunteers to share their responses with the class and ask what final decision the "seller" should make. Should Jack hold, sell or trade the comic book?
3. Engage the class in a discussion about buying, selling and trading investments. Using the answer key as a guide, explain that Jack bought the investment low and can now sell high, making it a great **return on investment**. Help students understand that like Jack, when individuals invest money in the **stock market** they have to consider potential losses on investments. Review the terms and concepts on the answer key, including **caveat emptor**, meaning "buyer beware."
4. Next, ask members of the class what they would do in the same situation. Would they hold, sell or trade the comic book? What are the potential risks and benefits of each decision? Explain that just like the scenario, investing in the stock market means analyzing different options and making calculated decisions by weighing risks and rewards. Buying, selling, holding and trading investments bring different levels of risk and reward, and so we need to educate ourselves on potential losses and gains before making investment decisions.

Student Preparation: The Stock Market

[Time Required: 25 minutes]

5. Explain that one common investment strategy is to buy stocks. Ask students what they know about the stock market and explain that buying a stock means that you are buying a **share**, or portion, of ownership of a company. Inform them that a share has a dollar value, and that there are many theories about how this dollar value is determined. Help students understand that we do know some of the factors that affect the price of a stock. Explain that one factor is how investors feel about a company and the products or services it provides. Another is supply and demand of that

TEACHER'S TIPS

What is the Essential Question?
The Essential Question is designed to "hook" the learner, promote inquiry and engagement with the lesson, and allow students to exercise problem-solving abilities. It addresses a larger concept, does not have a right or wrong answer, and requires higher-order thinking skills.

Link to Lesson 20:
Connect your discussion with **Lesson 20**, reminding students of the value in using financial resources to help us make smart investments.

stock in the market. Stock price is also influenced by the **price-to-earnings ratio**, or **P/E ratio** of a stock, which is a measure of the price paid for a share compared to the annual profit earned per share.

6. Engage the class in a discussion about how investors choose stocks for purchase. What do investors do to help ensure they get a strong return on investment? How do they decide what stocks to pick? Explain that there are several factors investors may consider when assessing investment potential in stocks, including studying stock market reports, finding companies that match their values, observing trends and picking stocks from multiple industries to diversify investments.
7. Next, ask the class if they know what a stockbroker is. Explain that a **stockbroker** is a professional that helps investors buy, sell and trade stocks on the **stock exchange**. Explain that there are two major stock exchanges in the U.S. and they include the **New York Stock Exchange (NYSE)** and the **National Association of Securities Dealers Automated Quotations (NASDAQ)**. In addition to knowing the basic stock exchanges, tell students that it's also important to evaluate the performance of an investment based on a **benchmark**, or a standard.
8. In the stock market, we call benchmarks an **index** and there are different types of indices that can be used to determine an investment's performance. Explain that a **stock market index** is a hypothetical portfolio of stocks representing a particular market or portion of it. For example, the Standard and Poor's 500 (S&P 500), measures the performance of 500 large company stocks chosen for their market size, liquidity, industry grouping and other factors. Another common index is the Dow Jones Industrial Average, which tracks the performance of 30 large companies.
9. Ask students how they think investors make money from stocks. Invite volunteers to share their answers and explain that stocks make money through **capital gains** and **dividends**, among other factors. Capital gain is when the value of a stock goes up. For example, if a stock increases from $50 to $55, the $5 increase is the capital gain. However, you don't have to pay capital gains tax until you sell the stock. Dividends are when a company makes regular (quarterly or annual) or one-time payments of company profits to their shareholders, or owners of the stock.
10. Tell students that there are specific rules and regulations for the stock exchange and that the government created the **U.S. Securities and Exchange Commission (SEC)** to help protect investors by maintaining a fair and equitable market.

Challenge: Investing in Stocks

[Time Required: 30 minutes]

11. Next, explain to students that understanding how to read a stock table is one way to analyze the stock market and make smart investment choices.
12. Distribute the student activity sheet ***Stock Up*** and review the NYSE's How to Read Stock Tables as a class found at practicalmoneyskills.com/HS33. Help students understand each of the terms found on the NYSE stock table including **rate of return**, which is the yield percent, and a stock's **high** and **low**, which are the highest and lowest paid price for a stock. Tell students they will now answer a few questions about stock market basics and then read stock tables for five stocks of their choice. Give students twenty minutes to complete the activity.
13. Invite volunteers to share their findings with the class and discuss why stock tables are important to consider when making investment decisions. What can we learn by studying stock tables? Why is it important to understand a stock's high, low, yield and dividend?

Reflection

[Time Required: 5 minutes]

Ask students to reflect in their notebooks about how money can be made, and lost, through investments. What factors will students consider when investing their money and why?

TEACHER'S TIP

What is Reflection?
The Reflection part of the class gives students the opportunity to reflect on the bigger-picture meaning of the exercise, and to assimilate and personalize some of the concepts and ideas learned about in the class.

Know When to Hold 'Em

LESSON 21: ANSWER KEY 1

Jack is in a great position because of his smart investment. The comic book was purchased at a low rate and can now be sold at a high rate by taking Brooke's offer, creating a strong **return on investment**. This means that Jack **invested** $5 to **buy** the comic book, but can now **sell** it for up to $100, making a profit of $95.

Jack can also choose to **trade** his comic book for triple the quantity by dealing with Caroline. However, Jack should understand **caveat emptor**, which means "buyer beware." Just because quantity is tripled doesn't mean it is worth more. If the comic books are from a popular artist last year, they may not hold the same value this year or anytime in the future. There is also no way of knowing the condition of the comic books—if they are ripped, folded or otherwise damaged, that could detract from their value, creating a higher **risk** investment.

Lastly, Jack has the option to **hold** the comic book and not make a deal with Brooke or Caroline. By holding the comic book, Jack takes a **risk** in waiting for prices to climb even higher before selling. If the creator's popularity dies out quickly, selling now could mean getting the highest price if it becomes unpopular quickly. However, the creator could also continue to grow in popularity, which would further increase the value of the signed comic book. Holding is a calculated risk that can either bring greater profits or greater losses.

Stock Up

LESSON 21: ANSWER KEY 2

1. A share of stock is a share of ownership in a corporation. Shareholders have a claim to part of a corporation's assets and earnings.

2. **Price-to-earnings ratio**, or **P/E ratio** of a stock is a measure of the price paid for a share compared to the annual profit earned per share. In mathematical terms, the P/E ratio equals the company's market value per share divided by its earnings per share.

3. Supply and demand.
This is the theory that when there is a low supply of a resource and/or a high demand for it, this will drive up the stock's share price. Conversely, the greater the supply and the lower the demand, the lower the price will be.

For remaining items, answers will vary depending on the stocks selected.