Lesson 16

Chapter 1: Investing concepts

Recommended current course:
Building an entrepreneurial mindset

Recommended course code: BEM10

Previous course: Introduction to business, Grade 9 or 10, Open

Previous course code: BBI1O/2O

Focus: Personal finance

Time: One 75-minute period

Topic: Common investing pitfalls

Curriculum Connections

CURRICULUM EXPECTATIONS:

A1.2
Use a project management process to manage the main aspects of a business project, including goals, key performance indicators, resources, delegation of tasks and responsibilities, progress of tasks, deadlines and risks, while demonstrating a leadership style appropriate to each situation.

A1.3
Evaluate tasks and projects on a regular basis in terms of goals, key performance indicators and outcomes, taking into account feedback gathered from a variety of sources.

A2.1
Identify a variety of existing and emerging digital technologies, tools and applications designed to support the completion of various business-related tasks and projects.

A2.2
Analyze and compare the benefits, limitations, costs and risks, including risks to online safety and data security, associated with various digital technologies, tools and applications used to complete business-related tasks and projects.

A2.3
Select and use the most appropriate digital technologies, tools and applications to complete a variety of business-related tasks and projects.

A3.4
Create and maintain a portfolio that illustrates business competencies and growth as an entrepreneur.

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SPECIFIC EXPECTATIONS:

C2.

Budgeting and financial management demonstrate an understanding of responsible management of financial resources and of services available to support financial literacy as students prepare a budget for their first postsecondary year.

C2.1

Describe fundamentals of financial responsibility, assessing the benefits of a variety of savings options and exploring planning tools available through financial institutions and other avenues.

21ST CENTURY/GLOBAL COMPETENCIES:

- Digital literacy: Selecting and using appropriate digital tools to collaborate, communicate, create, innovate and solve problems.
- Critical thinking and problem solving: Detecting patterns, making connections and transferring or applying what has been learned in a given situation to other situations, including real-world situations.
- Communication: Effectively conveying ideas, information and data through various mediums, including written, oral and visual communication.
- Collaboration and teamwork: Students learn from others and contribute to their learning as they co-construct knowledge, meaning and content.
- Financial literacy: Understanding basic financial concepts and the ability to make informed financial decisions.

Assessment and evaluation

Assessment/success criteria:

Students will

- understand the most common investing mistakes and how to avoid them
- explore the impact of different investment strategies on the returns of an investment portfolio, specifically comparing dollar-cost averaging (DCA) and lump-sum investing

Assessment tools: (Assessment FOR/AS learning)

- Questioning.
- Observation.
- Presentation.
- Debate.

Prior learning

Prior to this lesson, students will have an understanding of

- basic asset classes, including cash, equities, bonds, crypto and real estate
- the relationship between risk and return
- the importance of diversification

Instructional strategies

- Direct instruction.
- Teacher modelling.
- Small group work.
- Class discussion.
- Presentation.
- Scaffolding.
- Questioning.
- Debate.

Materials and resources

- Computer, speakers, classroom digital video projector, internet access.
- Video: Common investing pitfalls.
- Whiteboard and markers, chalk and chalkboard or equivalent.
- PowerPoint presentation: Common investing pitfalls.
- Student handout.
- Student devices, classroom computers or shared computers, tablets, laptops, etc.
- Mini whiteboards or chart paper and markers.

MINDS ON (10 minutes)

Note: All instructions, along with visual aids, will be explained by the teacher and also presented visually on PowerPoint slides.

1. Ask students: "Over a recent 20-year period, what percent of investment pros do you think beat the market?" Explain that the market, in this context, typically refers to a stock market index that represents the overall performance of a group of stocks, such as the S&P 500, Dow Jones Industrial Average or NASDAQ Composite.
2. Conduct a vote. (How many students think over 10% beat the market? How many think over 20%? Etc.)

ACTION (20 minutes)

1. Watch Money Gains video: Common investing pitfalls
2. Discuss the common mistakes discussed on Slides 4–7.

Common investing mistakes - Lack of diversification

Mistake: Putting all funds into a single investment or asset class without diversifying across different types of investments.

Impact: Concentrated portfolios are more susceptible to the risks associated with a specific investment, industry or market.

Solution: Diversify!

Common investing mistakes - Trying to time the market

Mistake: Trying to time the market by predicting when to buy or sell investments based on short-term market fluctuations.

Impact: Timing the market consistently is extremely difficult, and frequent trading can result in missed opportunities and increased transaction costs.

Solution: Dollar-cost averaging.

Common investing mistakes - Not rebalancing regularly

Mistake: Failing to regularly review and rebalance the investment portfolio in response to changes in market conditions or personal circumstances.

Impact: Over time, the portfolio may become misaligned with the investor's goals and risk tolerance.

Example:

- You invest $1,000: $250 each in four companies A, B, C and D.
- If company A goes up in value more than the others, it will account for a larger portion of your portfolio.
- Rebalancing would involve selling some shares of company A and buying more of companies B, C and D.
- It may feel counter intuitive to sell stocks that have gone up in value and buy more of stocks that have gone down, but it's important to do this to keep your portfolio on track.
- Must rebalance your allocation of stocks and bonds in a balanced portfolio: if stocks go up in value a lot, you may end up with a lot more exposure to stocks than you're comfortable with.

Common investing mistakes - Emotional decision making

Mistake: Allowing emotions, such as fear or greed, to drive investment decisions rather than relying on a well-thought-out strategy.

Impact: Emotional decisions may lead to impulsive actions, such as panic selling during market downturns or chasing trends without proper analysis.

Investors focused on the long term should avoid selling their investments when they are down and changing their portfolio after a downturn and making it too conservative.

Solution: Dollar-cost averaging.

3. Explain dollar-cost averaging to students (Slides 8 and 9):

WHAT DO YOU DO WHEN YOU SEE AN ITEM THAT YOU WANT GO ON SALE?

If you have space in the cupboard, you stock up. That same thinking can also apply to investing: if the company you like gets cheaper, you might load up your portfolio with new shares.

There's one problem: it can be hard to know when a stock is on sale, especially during periods of market volatility. When the price of your favourite cookies drops, you get excited. Investors, though, tend to get anxious when the market falls, and don't buy more stock when maybe they should.

Fortunately, dollar-cost averaging, or DCA for short, is a proven strategy that helps investors buy more shares of a company when they get cheaper, and fewer when they get more expensive, helping them ultimately purchase more stock at lower overall cost.

DCA is essentially investing on a schedule. You always invest the same amount of money in certain stocks or funds at the same time – like once a month or once a quarter – regardless of fluctuations in price.

Iconic investor Warren Buffett has long advocated for DCA as a way for investors to stay consistent with their wealth-building goals.

DCA lessens the risk that you will put that chunk of money into an investment at the wrong time, like right before a market crash.

CONSOLIDATION AND CONNECTION (30 minutes)

Activity: Investing strategies comparison

Students will work in small groups to analyze historical scenarios involving investment mistakes. They will complete this chart after the teacher has modelled what to do using the Enron scenario.

Scenario	Mistake(s) made	Advice
Many Enron employees invested a significant portion of their retirement savings in Enron stock, thinking that their company's success would translate into strong stock performance. Unfortunately, the company's collapse resulted in devastating financial losses for these employees.	*Not diversifying.*	Get professional help to invest in a diversified portfolio that is a mix of fixed income and equities.
Some investors during the late 1990s invested heavily in technology stocks without diversifying their portfolios. When the dot-com bubble burst in the early 2000s, many of these high-flying stocks plummeted, causing substantial losses.		
Long-Term Capital Management, led by John Meriwether, engaged in highly leveraged bets on bond markets without proper diversification. When the Russian financial crisis hit in 1998, the fund faced significant losses, requiring a bailout to prevent a broader financial crisis.		
Many investors sold their stocks during the 2008 financial crisis out of fear, reacting emotionally to market declines. Those who sold at the bottom locked in losses and missed the subsequent market recovery.		
During the rapid rise of bitcoin in 2021, many investors jumped in at its peak due to fear of missing out (FOMO). When bitcoin's value subsequently dropped, those who bought at the peak experienced significant losses.		
In the early days of the COVID-19 pandemic, some investors panicked and sold their stocks amid uncertainty. Those who exited the market during the downturn missed the subsequent rebound.		
Some investors do not regularly rebalance their portfolios to maintain the desired asset allocation, leading to an unintentional concentration in certain assets and increased risk.		

Take up the answers as a class, once groups have completed their analysis.

Homework

Reflection: How can dollar-cost averaging help protect investors from making the mistakes of trying to time the market and emotional decision making?

Accommodations

- Students can be supported throughout these discussions through teacher prompts.
- Differentiated instruction:
  - Content will be provided auditorily and visually.
  - Differentiation through letting students choose which products to investigate during the minds on, and which scenarios to analyze and how to present their findings.
- Provide organizers/notes: Students will be provided with an example and a chart to complete the Identifying investment mistakes exercise.
- Chunking/scaffolding
  - The teacher will model how to perform the Identifying investment mistakes exercise.
  - Teacher will circulate to check in with and assist students throughout the activity.
- Peer learning partners: Strategic heterogeneous grouping (grouping students of various abilities) will help to better encourage conversation and collaborative learning skills as they help and advocate for each other in understanding and communicating their ideas.
- Extra time/adjust pace:
  - The teacher can give students extra time to complete the activity.
  - If students finish early, they can complete the reflection in class.

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References

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