PFL Academy

Teacher Guide: Chapter 13.1 — Introduction to Investment Types

OVERVIEW

TIME	MATERIALS	PREREQUISITES
45-50 Minutes	Student Activity Packet, Investment Type Analyzer	Basic math skills, understanding of percentages

LESSON FLOW

5 min — THE CHALLENGE

- Read Priya's index fund investing story aloud or have students read silently.
- Discussion: "Why do you think Priya chose a simple two-fund approach rather than trying to pick individual stocks?"
- Preview how understanding investment types removes the intimidation from investing.

10 min — CORE CONCEPTS

- Review the 5 key terms. Emphasize the difference between stocks (ownership) and bonds (loans).
- Explain that mutual funds and ETFs are "baskets" containing many individual investments.
- Quick check: Ask students to identify which investment type would react most to a company going bankrupt (stock) vs. interest rates rising (bonds).

25-30 min — APPLY IT

- **Part A (8 min):** Investment Comparison. Walk through the table together. Emphasize matching investment type to goal.
- **Part B (12 min):** Fee Impact Analysis. Guide students through calculations. The $133,000+ fee difference is typically shocking to students.
- **Part C (5-8 min):** Portfolio Allocation. Students match investors to allocations. Discuss the rationale for age-based allocations.

10 min — CHECK YOUR UNDERSTANDING

- Complete in class or assign as homework.
- Review Q3 (diversification) and Q5 (personal application) for deeper understanding.
- Preview Day 2 Learning Lab: Hands-on portfolio building and performance simulation.

DIFFERENTIATION

Support

- Provide a simple analogy sheet (stocks = ownership in pizza shop, bonds = loan to neighbor).
- Pre-calculate the fee difference for Part B.
- Allow calculator use for all problems.
- Use visual pie charts for portfolio allocations.

Extension

- Research actual ETF expense ratios (VOO, SPY, VTI) and compare.
- Calculate compound growth with monthly $200 contributions over 40 years.

- Explore sector-specific ETFs and when they might be appropriate.

ANSWER KEY

Part A: Investment Type Comparison

1. Stocks/stock funds—with 40+ year horizon, can ride out volatility to capture higher long-term returns. Time to recover from market downturns makes aggressive allocation appropriate.

2. Bonds or bond funds—with only 3 years, need stability. Can't risk losing value right before needing money for down payment. Accepts lower returns for capital preservation.

Part B: Fee Impact Analysis

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Fee Difference Calculation:
Low-cost ETF final value: $733,904
High-cost fund final value: $600,430
Difference: $733,904 - $600,430 = $133,474

$133,474 ÷ $6,000 (annual contributions) = 22.2 years of contributions lost to fees!
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3. The fee difference of **$133,474** equals approximately **22 years** of $500/month ($6,000/year) contributions.

Part C: Portfolio Allocation

4. A (90% stocks/10% bonds)—Alex has 40+ years; can maximize growth and ride out volatility.

5. C (40% stocks/60% bonds)—Morgan needs to protect wealth with retirement approaching; shift toward stability.

Check Your Understanding

1. B (Stocks—historically ~10% average returns but with significant year-to-year swings)

2. B (Lower fees and intraday trading flexibility; ETFs often charge 0.03-0.25% vs. 0.5-1.5% for mutual funds)

3. Diversification reduces risk because different assets don't move together. When stocks fall, bonds often rise. When one industry struggles, others may thrive. This smooths out returns without reducing expected growth—you get risk reduction "for free."

4. Young investors have time to recover from market downturns, so they can accept volatility for higher returns. Older investors need to protect accumulated wealth and have less time to recover, so they shift toward stable bonds.

5. *Responses will vary. Look for: realistic assessment of time horizon, consideration of risk tolerance, recognition of need for diversification, and specific steps like opening an account or starting with a target-date fund.*

COMMON MISCONCEPTIONS

Misconception	Clarification
"Investing is only for wealthy people."	Many ETFs can be purchased for under $100 per share, and some brokerages offer fractional shares. Starting with $50-100/month is perfectly reasonable and compounds significantly over time.
"You need to pick individual stocks to make money."	Research consistently shows that most professional investors can't beat simple index funds over time. Low-cost index funds outperform most active stock pickers after fees.
"Bonds are always safe."	Bonds carry interest rate risk (prices fall when rates rise) and credit risk (issuer might default). They're typically less volatile than stocks but not risk-free.